

BUSINESS PLAN FOR A GALLATIN, TENNESSEE BUSINESS INCUBATOR

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Prepared for

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I. EXECUTIVE SUMMARY

This business plan has been developed by Greenwood Consulting Group, Inc. (GCGI) to guide the development and initial operations of a business incubator for small and start-up companies around the City of Gallatin in Middle Tennessee. Referred to as the Gallatin Business Incubator (GBI), this “mixed-use” incubator would provide services and a facility to enhance the start-up, survival, and growth rates of small businesses in the area.

This business plan begins with a summary of the market assessment conducted by GCGI as part of a previous feasibility study for a mixed-use incubator in the Gallatin area of Sumner County. The number of incubating companies and anchor tenants required to achieve certain occupancy levels in the GBI are estimated.¹ Primary data, collected from 191 surveys completed by local entrepreneurs and small business owners, are reported. Those data indicate a strong level of interest in a business incubator. The 28 survey respondents interested in becoming tenants of an incubator, for example, would represent an occupancy rate of 70% in a 30,000 square foot incubator, which would be higher than the 65% initial occupancy level that GCGI assumes in a new incubator. Another 75 survey respondents would be interested in using services at the GBI even though they were not interested in locating their businesses in the incubator. Overall, 68% of survey respondents would use the incubator, and all but seven of the 191 respondents (96%) thought an incubator was a good idea for the Gallatin area. Secondary data confirmed the strong market for an incubator in the Sumner County area: for example, the number of microbusinesses in the county (i.e., those with no employees) grew by 57% in the decade ending in 2007, while the County’s population only grew 20%. Further, Sumner County has 22% more microbusinesses per capita than the average community, and the ratio of microbusinesses to regular business establishments in Sumner County is 58% higher than the national average. Clearly, Sumner County is a hotbed of entrepreneurial and small business activity, which suggests there would be substantial numbers of microbusiness owners seeking assistance and resources at the GBI.

The marketing plan for the GBI consists of three parts corresponding to sequential implementation time frames. The “early stage” is the period between the present and the first 12 months of the GBI operations. The focus of this stage should be on developing community awareness, signing up initial tenants and affiliates including preleasing activities, and stabilizing initial operations of the GBI.² The “intermediate

¹ As the terms are used in this document, an incubating tenant refers to a company located in the incubator that is new, small, or otherwise appropriate for the types of business and technical assistance provided in an incubator environment. An anchor tenant, in contrast, is a company in the incubator or related facility that is sufficiently mature to no longer require incubator services.

² In this business plan, the general term client is used to describe firms that use the facilities and/or services of the incubator. Affiliates are those firms that regularly use the services of the incubator for an established monthly fee but are not housed in the facility. Tenants are firms that lease space at the incubator. Clients include tenants and affiliates as well as firms that may only use the services of the

stage” of the marketing plan is for the 13- to 36-month period after the GBI’s opening date. During this period, the GBI should begin celebrating milestones, expand the space occupied by existing tenants as they grow, and offer financial incentives if necessary to attract additional tenants. The “later stage” of the marketing plan is for the period after 36 months after the GBI opens. Soliciting media coverage of major tenant and GBI events, surveying tenants regarding their level of satisfaction, catering to desirable clusters, and managing initial tenant graduations are examples of activities expected during this period.

The location for the GBI is assumed to be the former ServPro Headquarters facility on Airport Road in Gallatin. While this facility consists of three buildings totaling over 60,000 square feet, GCGI assumes the incubator would locate in only the front two buildings, which total about 42,000 square feet. As discussed later, even these two buildings represent more space than needed for the GBI, and therefore about 12,000 square feet might be held as surplus for eventual incubator expansion or “graduation” space of an incubated tenant, or could be leased to anchor tenants. It is assumed that the incubator purchases this portion of the former ServPro Headquarters, as financial projections in the feasibility study demonstrated that a leased facility has much less potential for being financially viable. It is recognized that the ownership of the former ServPro facility was changing as this business plan was being prepared, and therefore its availability and terms of purchase may be different from what is assumed in this plan. A number of design suggestions are offered for the GBI, including striving to make 80% of the space available for lease; avoiding cubicles and long rows of offices while emphasizing flexible spaces and clusters of offices; creating traffic patterns that will increase opportunities for tenants to interact; collocating important spaces such as a workroom, reception area, and lunch room; and reducing maintenance costs by emphasizing high quality finishes and mechanical systems to the extent allowed by the project budget.

A comprehensive set of office, business, and technical services is important to the GBI fulfilling its mission as a business incubator and serving the needs of small businesses and entrepreneurs in the Gallatin area. This business plan includes lists of specific services that might be offered, but recommends that the GBI developers be “market driven” in selecting the exact set of services to be provided on site. GCGI recommends that external service providers be utilized to the extent possible to meet tenants’ needs to prevent the GBI from duplicating services others already offer, assuming that the services are provided competently and affordably, and are reasonably accessible to GBI tenants.

Areas of technical assistance sought highly by potential tenants and affiliates of the GBI, per the market survey in the feasibility study, are marketing, business planning, and financial assistance (securing funds, financial analysis, and taxation assistance). All such areas can be addressed by the incubator, either directly (by GBI staff or board members offering training and one-on-one assistance) or indirectly (by

incubator on an infrequent basis, such as attending an occasional incubator-sponsored workshop. These firms might only pay a fee on an event-by-event basis.

referring tenants and other incubator clients to appropriate external sources of this assistance who are competent, affordable, and accessible). GCGI notes that, per the survey, area entrepreneurs and small business owners are more likely to use for-profit sources of assistance than non-profit or public ones, but are more satisfied with the quality of service received from the non-profit/public sources. This suggests that the incubator should align itself closely with highly regarded non-profit/public sources of assistance like the Small Business Development Center and Volunteer State Community College, and encourage greater utilization of such sources by incubator tenants and clients. Also, the incubator should help its tenants and clients understand how they can maximize the value of assistance sought from for-profit sources and, as appropriate, should help selected for-profit sources to better serve the needs of small and start-up businesses in the Gallatin area.

GCGI recommends that the GBI price its office services (such as telephone answering, and use of the photocopier and fax machine) at a break-even or profitable rate whenever possible, and take steps to avoid losing service revenues through abuses of the honor system. The cost of many business and technical services provided by the GBI staff and board members should be included in the incubator tenant's rental fees, while those provided by outside providers will follow those sources' pricing policies (although the incubator should attempt to secure preferred pricing for its tenants and clients).

GCGI recommends that the GBI be under the legal umbrella of the Gallatin Economic Development Agency (GEDA), and governed by a newly created GEDA advisory board that is separate from the existing GEDA board (the latter should transition into becoming the advisory board for GEDA's non-incubator activities). The GBI Manager will answer to the GEDA Executive Director, with the Manager having considerable autonomy. The Manager should have primary responsibility for day-to-day operations of the GBI, with a written agreement clarifying specifically the responsibilities and prerogatives of the Manager and those of the GEDA Executive Director and the GBI Advisory Board of Directors. The GBI should also be staffed by a full-time Administrative Assistant/Receptionist, who will report to the GBI Manager. Recommended qualifications, responsibilities, and training for the GBI staff are outlined in this business plan.

Flexible entrance and exit guidelines for admitting and graduating tenants from the GBI should be used rather than rigid criteria, and suggested guidelines are provided. Flexibility has strong advantages over rigid criteria, as discussed in this business plan. Tenant leases and services agreements should be standardized and carefully written because of their importance to the relationship between the GBI and its tenants and affiliates. Tenant reporting should be minimized to a level that meets expectations of the GBI funding sources and provides key information to GBI management, and not require a major time commitment to tenant companies. GCGI recommends that rental rates be set at approximately market level, rather than at below market rates like some incubators, to help ensure financial viability of the GBI and to reflect the value-added services being provided. Care must be taken in

determining the equivalent market rental rate, because GCGI recommends that GBI rents be inclusive of utilities, common area maintenance fees, and similar costs that are usually quoted separately under “triple net” leasing arrangements for Gallatin area commercial properties.

GCGI estimates that it will take approximately \$2.6 million to develop the GBI and cover its early operational deficits. This value includes the cost to purchase and renovate the front two buildings in the former ServPro Headquarters on Airport Road in Gallatin, construct a new 2,500 square foot entrance facility that links the two buildings together, and equip and furnish the GBI common areas. The largest sources of funding to cover this development cost are identified as the U.S. Economic Development Administration (EDA), which is the largest Federal funder of business incubators, and a to-be-established Tax Increment Finance (TIF) district. Other important funding sources include an investment by local governmental entities, and a substantial loan from the Tennessee Valley Authority. GCGI projects that the GBI can become financially self-sustaining (i.e., when operating revenues first equal or exceed operating expenses) by approximately Year 3 of operations, assuming that occupancy rates increase from a modest initial 65% level to a more aggressive but reasonable level of 84% by Year 3. The accumulated operating deficit before break-even is achieved will be about \$125,000, with this initial deficit being covered by the development capital raised (or at least identified) at the beginning of the project. GCGI assumes that some fraction of the surplus building space (i.e., space not needed by incubating companies) will be rented to one or more anchor tenants; a second financial projection indicates that if this surplus space is simply kept vacant, then break even likely will not occur until Year 4, at an occupancy rate of about 90% and after accumulating a deficit of about \$165,000.

II. INTRODUCTION

In August 2009, Greenwood Consulting Group, Inc. (GCGI) completed a feasibility study for a small business incubator in Gallatin, Tennessee. The prospective incubator would be a mixed-use incubator, meaning that it would cater to a variety of business types, and start-up as well as existing small businesses. Using its proprietary Incubator Feasibility Model[®], GCGI concluded that a mixed-use business incubator is feasible in the Gallatin area. The project earned a score of 70, where 50 represents an “average” incubator and 100 is an “ideal” incubator, and therefore is equivalent to an academic grade of “B.”

GCGI was impressed during the feasibility study by the following, as they pertain to the environment for the proposed business incubator:

- Strong response to the market survey, including a substantial number of respondents interested in becoming tenants of the incubator;
- Data suggesting a strong and important microbusiness economy in Sumner County;
- Good cooperation among key players in the incubator project, including GEDA, VSCC, and the Gallatin Area Chamber of Commerce;
- A number of reasonable alternatives to house the incubator, including several existing buildings, most of which are priced reasonably; and
- Strong operating financials that allow the Gallatin incubator to achieve financial self sustainability even when burdened with the cost of a full time manager and repayment of a loan to TVA.

The primary areas of concern, in GCGI’s opinion, about the feasibility of an incubator in the Gallatin area include:

- Questions about whether the large and important microbusiness community is interested in being part of the proposed incubator, especially in terms of being a tenant;
- Whether the incubator can be championed by the Gallatin Economic Development Agency but still achieve adequate autonomy for the incubator to have the necessary entrepreneurial atmosphere and culture;
- Whether the community can initiate an application to the Federal Economic Development Administration (EDA) promptly enough to meet the September 2010 deadline on disaster relief funding available to Sumner County;
- Whether the EDA will consider a grant that includes acquisition of an existing building (or at least to allow the non-EDA match to be used to acquire such a building);
- Whether the IDB, with support and cooperation from the City of Gallatin, the Sumner County Board, and the business community, can assemble a Tax Increment Finance district to generate approximately \$1 million for the incubator project; and

- Whether TVA will seriously entertain a loan request for more than 10% of the development cost of the Gallatin incubator.

GCGI believes that these areas of concern can be mitigated and, if they are, GCGI would have even greater confidence that the Gallatin business incubator can be a successful, sustainable, and important contributor to the economy of Gallatin and Sumner County.

Given the conclusion of feasibility and the problem areas identified, GCGI made 10 recommendations to the Gallatin community:

1. Continue to identify possible tenants for the incubator through actions such as holding focus groups with bankers, business leaders, Chamber of Commerce members, and others who might be able to identify emerging candidates for the incubator. Also, hold several workshops (perhaps in conjunction with the SBDC) on topics of interest to small and start-up businesses, especially microbusinesses. Attendees of those workshops should be briefed on the idea of an incubator in Gallatin and asked to complete incubator surveys because they may be prime candidates for tenants or clients of the project. Workshops should be scheduled at varying times and days of the week to determine if those variables impact the likelihood of attendance.
2. Hold one or more focus groups with bankers and for-profit business service providers to learn more about the microbusinesses in the Gallatin area, with a particular emphasis on deciding whether substantially more microbusinesses are interested in the incubator than participated in the market survey. If the conclusion is that there are more microbusinesses, brainstorm with these individuals on the most effective way to communicate with area microbusinesses about the incubator and to solicit expressions of interest in the project, including working with databases of City and County business license holders and Dun & Bradstreet.
3. Establish dialog with companies that expressed interest, on the market survey, in becoming tenants of the Gallatin area incubator, to confirm their level of interest and preferences (especially location) in the incubator. Keep them apprised of the project's progress, preferably via periodic emails, and use them as sounding board for ideas for what might be included in the incubator in the way of features, programs, assistance, etc.
4. Convene a meeting of community and business leaders to discuss and decide on the champion for the incubator project. GCGI recommends proceeding with the incubator either being under GEDA's legal umbrella, but with a separate advisory board and a high degree of autonomy, and strong involvement by VSCC and area entrepreneurs.

5. Select the preferred scenario, and associated facility/site, for the Gallatin incubator. This is necessary for Tasks 7 through 10 to be completed. At least one contingency facility/site should also be selected in case the preferred one becomes unavailable as the incubator project moves forward.
6. Contact the EDA Representative for Tennessee to (a) brief him on the positive outcome of this feasibility study, (b) indicate importance of being able to use EDA funds (or at least the local match) to acquire an existing building, and (c) confirm his willingness to entertain (and EDA's ability to fund) an application for EDA funding under its disaster relief program.
7. Prepare the EDA pre-application as soon as possible, using information from this feasibility study as well as advice from the Tennessee EDA Representative as guidance. Prepare the full application upon EDA's invitation to submit one.
8. Communicate the importance of the TIF (in funding the Gallatin incubator) to City and County officials, and to the chairperson of the IDB. Identify and initiate actions required to have a TIF district, enabling legislation, and other pertinent parameters created and considered for enactment.
9. Discuss the outcome of the feasibility study with TVA representatives, with special attention on the development funding and operating financial self sustainability criteria. Confirm an interest in TVA partially funding the Gallatin incubator, with a request for a loan exceeding TVA's norm of 10% of project cost (again justified by the strength of the operating financials). Seek guidance on the application process for this TVA funding, and prepare the application.
10. Prepare the incubator business plan, which should incorporate revised financials and an updated funding scenario, and should be written around a preferred building for the incubator (see Task 5). This plan should incorporate a suggested legal structure for the incubator to give it adequate autonomy for an entrepreneurial support program. The business plan also should meet EDA expectations to support the application for an EDA grant to help cover development costs of the Gallatin incubator.

At the conclusion of the feasibility study, GCGI was retained to prepare this business plan, and thus fulfill the 10th recommendation. Two major decisions were made by the committee providing oversight on this project that influence the content of this plan. First, the committee confirmed its support for the Gallatin Business Incubator (GBI) to be championed and governed by the Gallatin Economic Development Agency (GEDA), with strong participation by Volunteer State Community College (VSCC) and others. Second, the committee indicated that this business plan should assume the GBI would be located in the former headquarters of the ServPro corporation on the southeast side of Gallatin in its industrial area.

This business plan is designed to serve two purposes. The first and primary purpose is to guide the development of the proposed GBI from its current status through its initial development and its first several years of operations. Implicit in this purpose are the activities necessary to build an effective and financially self-sustainable business incubator. The second purpose is to demonstrate the viability of the GBI to potential stakeholders, funding sources, and others.

This business plan is organized into seven sections. The first section summarizes the extensive market analysis that was conducted as part of the feasibility study, which serves as a reminder of the opportunities on which the GBI should focus. The second section is an abbreviated marketing plan, which includes strategies for attracting incubator tenants and clients in the short (early stage), intermediate (intermediate stage), and long terms (later stage). The third section lists some of the design considerations that GCGI recommends for the incubator building.

The fourth section outlines the services that GCGI suggests the GBI provide to its clients, who might provide those services, and pricing guidelines. The fifth section addresses governance and staffing for the GBI, and the relationship between the staff and the GEDA and its board, while the sixth section includes discussion of important operational issues such as entrance and exit criteria for tenants, rental rates and pricing schedules, and pointers for developing and administering leases. The seventh section of this business plan includes updated cash-flow projections for the first five years of operation of the GBI, as well as an estimate of the incubator development cost and sources of funding.

III. MARKET ANALYSIS

GCGI included an extensive market analysis in its feasibility study. Evidence of an adequate market is critical to the success of a business incubator: it does not matter what other conditions exist, if there is not enough demand for the incubator, it will not succeed. This section summarizes the parts of the analysis that are directly applicable to the future development of the GBI.

To set the context of the market analysis for the GBI, it is important to first estimate how many tenants would be required to reach critical occupancy levels in the incubator. High occupancy levels are necessary both to generate sufficient revenues from tenants to cover operating costs of the incubator, and to ensure there are sufficient numbers of entrepreneurs to generate the desired “synergy” that comes from interaction and networking among tenant companies.

Using data in three National Business Incubation Association (NBIA) reports, GCGI estimates that the “average” tenant in a mixed-use incubator³ occupies between

³ A mixed-use incubator is one that caters to a variety of types of businesses in a variety of industries

1,500 and 1,900 square feet of space⁴. Because we believe that companies in the proposed Gallatin area business incubator would be smaller and younger than the national average, we conservatively estimate the average tenant in the Gallatin incubator would occupy only about one-third of the national average, or about 600 square feet.

Assuming that 80% of the incubator space is available for lease (i.e., 20% is dedicated to common areas like conference rooms, restrooms, reception area, and hallways), the number of tenants that would be housed in a mixed-use incubator in the Gallatin area at various occupancy levels and building sizes is shown in Table 1.⁵ The four building sizes listed in Table 1 are consistent with possible sizes for the Gallatin incubator, based on various available buildings and new construction scenarios considered in the feasibility analysis. The largest size, 30,000 square feet, is highlighted in Table 1, since it represents the anticipate incubator size in the selected incubator building, the former ServPro Headquarters. The final row of Table 1 suggests that 26 tenants would be needed to achieve an occupancy level of 65% of the incubator space, while 36 tenants will be required to achieve 90% occupancy. Because 65% occupancy would be a reasonable initial occupancy level, and 90% would be an ultimate level that GCGI would like to see achieved, the market analysis needs to support a conclusion that 26 to 36 tenants can be identified for the Gallatin Business Incubator.

Table 1. Number of Tenants Served at Various Occupancy Rates

Gross Incubator Area (square feet)	Percentage of Leasable Space Occupied						
	60%	65%	70%	75%	80%	85%	90%
10,000	8	9	9	10	11	11	12
20,000	16	17	19	20	21	23	24
25,000	20	22	23	25	27	28	30
30,000	24	26	28	30	32	34	36

III.A. Primary Market Analysis

GCGI assessed the market for a Gallatin business incubator using both primary and secondary market data. Primary data are those derived from potential clients and tenants of the incubator, while secondary data are published tabulations from sources like the U.S. Census Bureau and Internal Revenue Service. In this subsection, primary data for the Gallatin incubator market are discussed.

⁴ *Business Incubation Works (1997)*, and *1998 State of the Business Incubation Industry*, National Business Incubation Association. An update in 2002 to the State of the Business Incubation Industry report does not differentiate tenant from non-tenant clients and therefore is not used here. The 2006 update does not differentiate mixed-use from other types of incubators, but estimates a typical incubator tenant occupies about 1,560 square feet

⁵ In the feasibility analysis for this incubator, a net leasable fraction of 75% was assumed. This is changed to 80% in this business plan to reflect the higher leasable fraction anticipated in the selected building, especially given the expectation of adding a 2,500 square foot entry to accommodate common areas

III.A.1 Survey Responses from Area Entrepreneurs

GCGI surveyed local entrepreneurs to determine their level of interest in a possible Gallatin business incubator. A written survey form was developed, and disseminated throughout the area. Thanks to considerable distribution efforts, 191 surveys were returned. This was the largest number of responses that GCGI has ever received to an incubator survey, which is an initial indicator of the level of interest in the incubator in the Gallatin area.

Appendix A of the Feasibility report shows the tallied responses for survey respondents. Some of the more significant results, in terms of the market for an incubator, are:

- 96% of the respondents indicated that they thought a business incubator was a good idea for the Gallatin area, which is above average based on GCGI's experience in other communities (only 7 of 191 respondents thought the incubator was not a good idea);
- 68% of survey respondents said they would utilize the incubator if it gets created in Gallatin area;
- 28 respondents, or about 15% of the surveys received, indicated an interest in becoming a tenant of a Gallatin area business incubator,
- Five of the 191 respondents indicated interest in becoming "anchor tenants" of the incubator (although two of the five also thought they might qualify as incubating tenants), as described later;
- another 75 respondents, or about 39% of the surveys received, expressed interest in using common resources and services at the incubator even though they would not become tenants; and
- 25 respondents (13%) said they did not anticipate having a need for the incubator for their own business, while 47 (25%) said they would not use it but thought it was a good idea of the Gallatin area.

A majority of respondents (about 60%) are existing businesses, which is not unusual for this sort of survey conducted by GCGI. However, roughly 45 of the respondents were entrepreneurs who are either starting or considering starting a business, which indicates a high level of interest in the incubator project among this important segment of the business community⁶ despite a severe national economic recession that could be expected to dampen entrepreneurial interests.

The number of potential tenants, or 28 survey respondents, can be considered in light of Table 1 and the number of tenants needed to achieve various incubator occupancy levels. Twenty eight tenants would achieve a 70% occupancy level in a larger, mixed-use incubator that is 30,000 square feet in size. Therefore, the 28 survey respondents who expressed an interest in becoming a tenant of a Gallatin incubator would be sufficient to create a reasonable initial occupancy level, even if

⁶ Among the remaining 32 survey respondents who chose the "Other" answer, some were instructors of Volunteer State Community College, interested citizens, or government officials.

that incubator is relatively large (30,000 square feet) in size. This is a positive indicator that there is a sufficiently large market for a Gallatin business incubator.

The feasibility study also analyzed the survey responses that come from only the firms and entrepreneurs who expressed an interest in becoming a tenant of the Gallatin business incubator. In general, the results of this subset track those of the overall pool of survey respondents, with several significant differences:

- A greater fraction of the potential tenants are new or planned start-up (vs. existing) businesses, with about 40% of potential tenants being start-up firms;
- Potential tenants are more positive about the Gallatin area as a place to start a small business; and
- Potential tenants are even more focused on having office space in the incubator, with about 83% saying this type of space needed to be provided. In contrast, potential tenants are much less interested in having video conferencing capability in the incubator than are survey respondents in general.

Of the survey respondents interested in becoming tenants of the Gallatin incubator, the following business descriptions were offered:

- Insurance (3 respondents)
- Audio/video equipment systems, design and integration solutions
- Manufacturing consulting service
- Information technology consulting services
- Personal wellness consulting
- Accounting, bookkeeping, tax, and financial planning
- Business brokerage
- Communications, Marketing & Grant Writing Assistance
- Windows, doors, garage doors, glass
- Custom window treatments, shades, shutters, blinds & draperies
- Direct selling home party cosmetics
- Custom gift baskets and collectibles gift items
- Real estate related services
- Graphic design
- Graphic design & advertising
- Signs, Banners, Vehicle Lettering and Graphics
- Art, gifts, and photography services
- Translation and interpretation services
- Employee training & development programs
- Job training, social service, court mediation, meals on wheels, emergency assistance
- Non-profit to help military widows
- Undecided (2)

There appear to be a few “clusters” of business types in these data, including consulting, graphic design, social/employment services, and business assistance. However, the variety of the types of businesses reinforces the earlier conclusion that the Gallatin area would be best served by a mixed-use incubator, which is designed to meet the needs of many different types of small businesses. It does not appear, based on the responses received to the survey, that the incubator will need to accommodate any heavy industrial or manufacturing operations.

III.A.2 Identification of Potential Anchor Tenants

As mentioned in the summary of the market survey conducted during the Gallatin incubator feasibility study, there were five respondents that expressed interest in becoming part of the incubator as anchor tenants. An anchor tenant in a business incubator is defined as a firm that is sufficiently mature to not need the services and programs typically provided to new and early stage businesses. Of these five anchor candidates, two indicated that they also might be considered an incubating tenant, and two do not include enough information to assess their viability as an anchor for the Gallatin incubator. However, three candidates are worth mentioning here. They offered the following descriptions of their businesses:

- Accounting, bookkeeping, tax, financial planning
- Information technology consulting services
- Industrial equipment & custom conveyor systems

These are very different firms, but all would have advantages for the Gallatin incubator as anchor tenants. The first would provide a ready source of assistance with incubator tenant and client financial issues. The second might assist incubator tenants and clients with their information technology (IT) issues, and also could be a cornerstone to what GCGI believes is a good opportunity for the Gallatin incubator to support the large number of small consulting firms in the area. And the third could be a valuable link between service businesses in the incubator and external manufacturing and industrial companies.

More generally, GCGI believes these potential anchors are important to the proposed business incubator for several reasons. First, anchor tenants sometimes serve as mentors or role models for other tenants that are start-up and early stage entrepreneurs. Second, anchor tenants sometimes represent market opportunities for other tenants, as they may purchase goods and services from them. Third, anchor tenants can enhance the financial viability and stability of a business incubator, and can reduce the number of incubating tenants required to achieve critical occupancy levels. Fourth, in the case of the first two anchor candidates, they might assist the incubator management in providing valuable business assistance to other tenants and clients of the incubator. Finally, an anchor tenant might serve as a magnet to attract desirable types of existing and start-up businesses to the incubator.

It should be noted that anchor tenants are often included in business incubators. The 2002 State of the Business Incubation Industry by NBIA indicates that “at least half of all [incubator programs surveyed] had anchors,” and those anchors occupied an average of 19,000 square feet of space. Both the NBIA study and a 2004 survey of business incubators in Appalachia by GCGI indicate a typical incubator has one or two anchor tenants. It also is not necessary for the anchor to be in the same building as the rest of the incubator; this is important, because the selected site for the Gallatin area business incubator consists of three buildings, and therefore it could accommodate one or more anchor tenants in buildings separate from those housing the incubating tenants.

It is possible, through some combination of the three examples mentioned above and others, that anchor tenants could occupy a significant amount of space in the proposed Gallatin incubator. This obviously would expand the overall initial occupancy in the incubator, which likely would improve the financial viability of the project.

III.B Secondary Market Data

As part of the analysis of the market for the Gallatin business incubator, GCGI looked at a number of secondary market data sources. GCGI looked at data for both microbusinesses and small, regular business establishments.

III.B.1 Microbusiness Market

Statistics reported by the U.S. Census Bureau, which are derived from tax returns to the Internal Revenue Service, indicate that there are almost 13,500 microbusinesses in Sumner County.⁷ Microbusinesses are defined here as those that are so small that they do not have any employees. Most are sole proprietorships of “self employed” individuals, although nationally about 10% are partnerships or corporations without employees. These microbusinesses represent a good market opportunity for a business incubator, since microbusinesses (except for those intentionally set up as part-time endeavors or as “hobby businesses”) are growth candidates that can benefit from the environment of an incubator.

Table 2 (see page 10) includes revealing data about microbusinesses in Sumner County, and for Tennessee and the United States, for comparison.⁸

One measure of microbusiness activity is the number of microbusinesses formed per each “regular” business establishment (i.e., one that has employees). Sumner County is above both the national and state averages, in 2007, as shown in line b of (s 3, in the ratio of microbusinesses to regular establishments. Sumner County has 4.5 microbusinesses for each regular business establishment, which is more than

⁷ Data are reported only at the County level, so it is not possible to distinguish Gallatin microbusinesses from those in Hendersonville or other parts of Sumner County

⁸ As of the writing of this report, the Census Bureau had reported 2007 data for microbusinesses, but had not yet reported 2007 data for regular business establishments. Table 3 includes an unfortunate mix of 2007 data for microbusinesses and 2006 data for regular business establishments

50% higher than the national average of 2.9. Therefore, the economy of Sumner County is more dependent on microbusinesses than a typical community elsewhere in Tennessee or the United States. GCGI believes a greater reliance on microbusinesses means a business incubator would be especially valuable in Sumner County to serve the higher incidence of microbusinesses here.

This dependence on microbusinesses in Sumner County is reinforced in line c of Table 2, which shows how many microbusinesses exist per 1,000 residents. This line shows that there are significantly more microbusinesses in Sumner County, per capita, than either Tennessee or the nation. In fact, there are 22% more microbusinesses per capita in Sumner County than in a typical American community.

Line d indicates that the dependence of the Sumner County economy on microbusinesses is increasing over time. The growth rate of microbusinesses in the County between 1998 and 2007 is 50% higher in Sumner County than in the United States as a whole. The growth rate of microbusinesses in Line d with that of regular business establishments in Line e suggests that, while regular businesses are forming in Sumner County at a might higher than average rate, that formation rate is still far below that of microbusinesses (19% for regular establishments, vs. 57% for microbusinesses).

Table 2. Microbusiness Activity in Sumner County and Elsewhere

	Sumner County	Tennessee	USA
a. # Microbusinesses, '07	13,458		
b. # Microbusiness per regular business, '07	4.5	3.4	2.9
c. # Microbusinesses per 1000 residents, '07	88	74	72
d. Growth, #micros, '98-'07	57%	41%	38%
e. Growth, #regular bsns, '98-'06	19%	3%	10%
f. Population growth, '98-'07	20%	12%	11%
g. \$ Receipts/microbusiness '07	\$49,400	\$46,100	\$45,700
h. Growth, receipts per microbusiness, '98-'07	28%	15%	12%

This dramatic difference is reinforced by comparing growth rates of regular business establishments and microbusinesses with the growth in general population. It could be argued that a community that is experiencing a large population growth will see a commensurate increase in the number of businesses, whether they be regular establishments or microbusinesses. But line f of Table 2 shows the population growth between 1998 and 2007: while the 20% population growth in Sumner County almost equals the 19% growth in regular business establishments during that time period, it is dwarfed by the 57% growth rate of microbusinesses. Put another way, even though Sumner County has grown 20% in recent years, the growth rate of microbusinesses was almost three times as high in the same time period, suggesting a boom in microbusiness activity among Sumner County residents.

Finally, lines g and h of Table 2 indicate that the microbusinesses in Sumner County are relatively strong. Line g indicates that the average microbusiness in the County

generates over \$49,000 in annual revenues, versus only \$46,000 for a typical microbusiness in Tennessee and the United States. Further, line h suggests that the average receipts of Sumner County microbusinesses are increasing at about twice the rate of either the state or nation, again indicating the strength of microbusinesses in the area.

The data on microbusinesses suggest that Sumner County may be a hot bed of entrepreneurial activity and, the activity that is occurring, is contributing very positively to the economy of the area. The opportunity, then, is for the incubator to provide valuable support for such entrepreneurs and microbusinesses in Sumner County and surrounding area.

There also is an important question to be answered by the community's leadership: if these microbusinesses include some "life style" companies, and if entrepreneurs do not want to growth their businesses beyond their current size, does the community want to support such business development? The lack of growth potential is a negative factor in this consideration, as it means that microbusinesses likely will not directly create additional jobs for Gallatin area residents. However, there are significant indirect benefits from such microbusinesses as they purchase goods and services (both for their firms and their personal needs) in the Sumner County area. An example of the value of creating an incubator to bolster Sumner County microbusiness activity is to assume that the incubator could increase the number of area microbusinesses by 10%, which would result in a direct increase in annual Sumner County business receipts of about \$66.5 million, plus the indirect increase related to secondary purchases of goods and services resulting from these additional receipts.

Table 3 (see page 12) shows those industries in which the microbusinesses of Sumner County are found. The categories listed on the left side of the table represent the 2 digit codes for the North American Industry Classification System (NAICS), which after 1997 replaced the Standard Industrial Classification (SIC) system. The table shows both the number of Sumner County microbusinesses in each category, as well as what fraction of Sumner County microbusinesses are in the category. Data also are shown for the change in the number of microbusinesses in each NAICS industry category between 1998 and 2007.

Two relatively large categories, professional/scientific/technical services, and management of companies/waste management, are generally good candidates for the incubator, and represent over 2,800 microbusinesses in Sumner County. Other good candidates for the incubator might include manufacturing, information, finance/insurance, real estate, and health services; collectively these NAICS categories represent almost 2,700 microbusinesses in Sumner County.

Table 3. Distribution of Microbusiness Establishments by NAICS Category

NAICS	(a) # of Microbusinesses Sumner County 2007	(b) % of All Sumner County Microbusinesses 2007	(c) % of Change, Sumner County Microbusinesses 1998-2007
Forest/agric support	87	1%	61%
Mining	4	0%	33%
Utilities	15	0%	15%
Construct	2,439	18%	50%
Manufacturing	214	2%	36%
Wholesale	238	2%	13%
Retail	1,303	10%	30%
Transportation	658	5%	106%
Info	223	2%	83%
Finance & Ins	439	3%	59%
Real Estate	1,171	9%	72%
Prof/Scientific/Tech	1,548	12%	62%
Mgmt of Cos/Admin/Waste	1,311	10%	106%
Education	206	2%	227%
Health care	696	5%	77%
Arts/entertain	936	7%	50%
Accommod/food	164	1%	125%
Other	1,806	13%	30%
Sum	13,458	100%	57%

Column (c) of Table 3 provides additional insight into the industries where there has been significant growth, in terms of the number of microbusinesses, between 1998 and 2007—high growth might indicate a viable growth industry for Sumner County, as well as an increasing pool of small and early stage businesses that might be attracted to the proposed incubator. This growth column indicates that transportation, management of companies/waste management, educational services, and accommodation and food services have all grown more than 100% in this 10 year period. However, when growth is considered along with the sheer number of microbusinesses involved, GCGI is most impressed by construction contractors, professional/scientific/technical services, and health care services.

Some might argue that the professional/scientific/technical services industry should not be supported by an incubator because this category includes attorneys and accountants. While this is correct, Table 4 (see page 13) indicates a majority of microbusinesses in this industry in Sumner County are not attorneys or accountants. Per Column (a), although almost 350 microbusinesses in the Professional/Scientific/ Technical Services category are attorneys and accountants, there are almost 1,200 other types of firms in this category in Sumner County. Very notable are management/scientific/technical consulting services, computer systems design, architecture/engineering, and specialty design that collectively represent about 650 microbusinesses in the County. In contrast, the number of regular business establishments in these notable categories in Sumner County totals to only about 92 firms.

In conclusion, if Gallatin would like to have more management/scientific/technical consulting services, computer systems design, architecture/engineering, and specialty design firms, then it should help the 650 such microbusinesses in Sumner County to grow and prosper, and an effective way to do that is to create the proposed mixed-use incubator.

Table 4. Details of Professional/Scientific/Technical Consulting Services Industry

NAICS: Professional/Scientific/ Technical Services	(a) # of Microbusinesses Sumner County 2007	(b) # of Regular Establishments, Sumner County 2006	(c) % growth in Microbusinesses Sumner County 1998-2007
Legal svcs	110	45	108%
Accounting/tax	232	39	56%
a/e	136	19	28%
special design	106	7	121%
computer sys design	125	24	62%
Mgmt/sci/tech consulting	295	42	111%
Scientific R&D	5	1	25%
Advertising	70	8	59%
Other prof/sci/tech svcs	469	32	41%
Sum	1548	217	62%

In general, GCGI believes a mixed-use business incubator will contribute to the growth and development of microbusinesses in the Sumner County area. While microbusinesses are small firms with no employees, they represent a substantial fraction of the economic activity in Sumner County, and data show that the microfirms in this county are strong as measured by average revenues/receipts. They also could represent an opportunity for growth so that additional jobs and business revenues might be created in the area. However, it is also possible that a substantial number of microbusinesses, especially those in attractive NAICS categories like professional/scientific/technical services, may belong to individuals who have a lifestyle business and do not desire to grow by adding employees and expanding into new markets. This might help explain why the many microbusinesses in Sumner County did not seem to be represented as well as they should be in the market survey discussed in Section III.A. Alternatively, efforts to get the survey to the business community somehow missed the important microbusiness segment, and therefore microbusinesses are a good opportunity and market for economic development in the Sumner County area and should be supported with initiatives such as an incubator. GCGI believes the strength of the primary market data in the form of survey responses, as well as evidence within those surveys that some microbusinesses were represented, is sufficient to conclude that there is a favorable market opportunity for a mixed-use business incubator in the Gallatin area. However, additional market analysis, aimed at learning more about the nature/motivation of the microbusinesses in the area, could be a valuable supplement to GCGI's market analysis as reported in Sections III.B.

III.B.2 Small Regular Business Establishment Market

The proposed GBI incubator would likely help serve smaller existing firms in the area as well as start-ups, a conclusion which is supported by the fraction of existing firms that responded to the Gallatin incubator market survey. Section III.A addressed a segment of the existing company market in Sumner County related to microbusinesses, defined as those that have no employees. In this subsection, consideration is given to existing “regular business establishments” in Sumner County, which are business locations with at least one employee. The focus is on smaller regular business establishments, meaning those with fewer than five employees, as they are the most likely regular business establishments to benefit from the shared resources and business assistance services found in an incubator.

Table 5 shows data for Sumner County regular business establishments in 2006.⁹ Column (a) shows the number of regular business establishments by NAICS category. There are a total of 3,003 regular business establishments in the County in 2006 (compared to over 13,400 microbusinesses in 2007). The largest concentrations found in Construction, Retail, Health Care, and Other Services.

Table 5. Distribution of Sumner County Regular Business Establishments by NAICS Category

NAICS	(a) # of Regular Bsns Establishments 2006	(b) # of Regular Bsns Establishments w/ 1 to 4 empl 2006	(c) % Regular Bsns Establishments w/1 to 4 empl 2006	(d) % Growth in Regular Bsns Establishments w/1 to 4 empl 1998-2006
Forest/agric support	2	1	50%	0%
Mining	0	0		n/a
Utilities	5	1	20%	n/a
Construct	362	220	61%	6%
Manufacturing	217	80	37%	11%
Wholesale	147	71	48%	-22%
Retail	442	193	44%	3%
Transportation	91	58	64%	21%
Info	34	17	50%	6%
Finance & Ins	222	147	66%	55%
Real Estate	151	106	70%	34%
Prof/Scientific/Tech	217	168	77%	31%
Mgmt of Companies	18	8	44%	300%
Admin/Waste	160	102	64%	13%
Education	27	10	37%	11%
Health care	310	126	41%	4%
Arts/entertain	59	38	64%	27%
Accommod/food	214	75	35%	50%
Other services	319	191	60%	7%
Unclassified	6	6	100%	-74%
Sum	3,003	1,618	54%	13%

⁹ At the time this analysis and report were prepared, the U.S. Census Bureau had not reported 2007 data for regular business establishments, even though 2007 were available for microbusinesses. The reader is cautioned against drawing too many conclusions when comparing 2007 microbusiness data with 2006 regular business establishment data.

Column (b) of Table 5 indicates the number of Sumner County firms in each NAICS category that have fewer than five employees. These data do not include microbusinesses; i.e., they only represent firms that have at least one employee, but not more than four employees. Construction contractors lead with the largest number of small employers (< 5 employees) in Sumner County, followed by retailers and Other Services firms. Up to this point, the pattern is similar to the NAICS categories with the largest number of firms [per Column (a)], but now there is a divergence with the fourth largest category of small employers in Sumner County being Professional/Scientific/Technical services, followed by another newcomer, Finance and Insurance. Put another way, when only smaller firms are considered, Professional/Scientific/Technical services and Finance/Insurance are much more prominent parts of the Sumner County economy. Therefore, once again, if the Gallatin economic development strategy includes assistance to small firms, then Professional/Scientific/Technical Services and Finance/Insurance deserve attention, and both could be served in part by a mixed-use incubator in the Gallatin area.

Column (c) shows the fraction of Sumner County firms in each NAICS category that have fewer than five employees. On average, about 54% of all regular business establishments in the County have fewer than five employees, while in three industries (real estate, finance and insurance, and professional/scientific/technical services), approximately 70% of Sumner County firms have fewer than five employees.

Finally, Column (d) of Table 5 indicates the rate of growth of these smaller regular business establishments (<5 employees) between 1998 and 2006. Growth rates range from a negative 74% to a positive 300%. Without further analysis, data in this last column are difficult to interpret, since (for example) a decline in the number of smaller business establishments in a particular industry could be caused by a decline in that industry's presence in Sumner County, or by a growth that resulted in formerly small (<5 employee) firms hiring enough workers that they now are counted among larger firms with 5 to 9 employees, 10 to 15 employees, etc.

Based on the data in Table 5, GCGI concludes that there are several categories of smaller (fewer than five employee) regular business establishments in Sumner County that could benefit from a Gallatin incubator. Those include finance and insurance, real estate, professional/scientific/technical services, and perhaps construction contractors. GCGI is particularly impressed with the professional/scientific/technical services industry: when the number of such small (<5 workers) regular establishments is added to the number of microbusinesses in the same industry, there appears to be more than 1,700 firms in this one industry that are candidates for the Sumner County incubator.

III.C Market Conclusion

In assigning a score to the Gallatin area in terms of the market for a business incubator, GCGI first considered whether the area could be characterized as "Get in

front of the parade,” “Good opportunities emerging,” or “Building from the ground up.” The first category is defined as an area where there already exists substantial demand for something like an incubator and, literally, entrepreneurs will come if it is built. The second is defined as a community where there are good signs of an emerging or substantially growing pool of entrepreneurs and others who would benefit from the incubator.

GCGI believes that Sumner County, in terms of a market for an incubator, falls into the middle “good opportunity” category. However, the substantial number of market surveys that were from entrepreneurs interested in becoming tenants (or non-tenant clients) of the incubator, the large number of microbusinesses in Sumner County (including in industries of interest like professional/scientific/technical services), and the substantial fraction of County regular business establishments that are small (fewer than five employees), GCGI detects characteristics of the higher “Get in front of the parade” category. GCGI demonstrated, during the feasibility study, its optimism about the market for a Gallatin area incubator by assigning a score to Gallatin on the market criterion, which corresponds to “substantially above average” in terms of how well the area meets the market criterion.

IV. MARKETING PLAN

This section details a three-stage marketing plan for making the Gallatin area community aware of the Gallatin Business Incubator (GBI), and for enticing companies to become affiliates and tenants of the incubator and potentially expand their presence there. The three parts correspond to the time frame when they should be implemented; the “early stage” is the period between now and 12 months after the GBI opens (the focus being on community awareness and signing up clients for initial facility and service offerings), the “intermediate stage” for the period of 13 to 36 months after the GBI opening date (begin celebrating milestones, focus on keeping existing clients happy, expand the number and size of incubator tenants), and the “later stage” for the period after 36 months after the opening (publicize tenant companies, set strategy for tenant graduation). A key consideration throughout this plan is the reasonable number of positive survey responses received during the feasibility study in terms of companies or entrepreneurs willing to become part of the GBI and GCGI’s subsequent recommendation in its feasibility study report that efforts continue to be made to identify additional affiliates and tenants among small and start-up business owners in the area. Note that activities in the various stages reflect the assumption that the GBI will start with a modest level of occupancy of about 65% and will ramp up gradually by about 10-15% additional occupancy per year until reaching a maximum of about 90%.

IV.A. EARLY-STAGE MARKETING EFFORT

The initial problem is to build awareness of, and interest in, the GBI among potential clients, service providers, and the community in general. If possible, the GBI might initiate an information campaign that includes press releases and coverage of significant steps in the development process (such as submitting the EDA pre-application and full application, and hopefully the awarding of funds by EDA), presentations to civic groups and service clubs, articles in the local and regional newspapers and Chamber of Commerce newsletter and website, and possibly some paid advertising. GCGI recommends that the GBI have a website that can be easily linked to related sites such as the GEDA, VSCC, Chamber of Commerce, and SBDC websites. The general message in this initial awareness effort should include (a) a brief explanation of what an incubator is, (b) a statement that an incubator is being developed in Gallatin based on a favorable outcome of the feasibility study, (c) an indication of progress made in developing the GBI, and (d) a call for interested clients, tenants and service providers to contact the GBI for more information.

A marketing brochure should be developed that can be distributed to those who ask for more information. The brochure should address the same four topics listed above, but in greater detail, and include a brief survey or “pre-lease” form that can be mailed or faxed as an indication of the respondent’s interest in becoming a tenant or affiliate, or becoming a provider of business or technical services to GBI clients (the brochure also could refer the reader to a website where they could complete the survey/pre-lease form). A variation of this brochure should be included on the GBI website, including the survey form that can be completed and emailed to the GBI. This brochure also should be disseminated to key locations such as the GEDA and Small Business Development Center (SBDC) offices, the Volunteer State Community College (VSCC) campus, and lobbies of local banks.

Since some potential GBI clients are likely to be home-based businesses, a strong effort will need to be made to reach these types of companies that are not necessarily tied into normal business communications channels. One suggestion is to sponsor a series of workshops, aimed specifically at home based businesses, which would attract such firms that could then be identified and surveyed about their interest in the GBI. GCGI recommends that such workshops be planned and executed in cooperation with the VSCC SBDC.

A second part in the early-stage marketing effort is to develop a database of prospective tenants and affiliates. A good starting point is the names and contact information for those who replied to the survey conducted as part of the feasibility study (see section III.A) and expressed an interest in an incubator like the GBI. This database can be expanded as additional candidates for tenants and clients are identified, such as those who return copies of the survey form from the previously mentioned marketing brochure and attendees of the recommended home based business workshops. Other business start-up workshops, or variations thereof involving other topics of interest to early-stage businesses, might be offered in

conjunction with the SBDC to identify more candidates. This database can be used for direct mailings (especially e-mailings) during the early and intermediate stages of the marketing plan; the marketing brochures described above might be one such mailing. However, an immediate use of this database should be a personalized email or letter thanking the person for expressing interest in the GBI through the survey process, updating them on the development status of the incubator, and pledging to keep them informed of future progress.

Because of their importance to the financial viability of the GBI, GCGI recommends that the five companies completing the incubator interest survey that are potential anchor tenants should be contacted by telephone or in person to both thank them for their interest, and to glean additional information about their level of interest, quantity and type of space required, and timing issues. Those companies that have a serious interest in being an anchor tenant of the GBI should be regularly consulted about issues related to the incubator (e.g., comments on location and/or facility configuration) and informed about the progress of the project.

Presentations should be made before any group where significant number of private-sector business service providers might be present, such as meetings of the local bar association, accountant society chapter, and civic clubs. However, the message should include not only a request for tenant referrals, but also a call for interested professionals who would be willing to provide services to GBI affiliates and tenants, particularly on a reduced fee or pro bono basis. GCGI believes the message of these presentations also needs to include an invitation for small and start-up business owners who might be in one of these meetings to consider becoming a tenant or client of the GBI.

As soon as possible, a design of the GBI (including a floor plan showing a layout of leasable spaces) should be prepared. Anchor tenants' involvement should include identifying specific portions of the incubator facility that they will occupy, and the interior configuration of that space (with consideration that the anchors might be in a building separate from the incubating tenants). A balance must be struck between giving these important anchor tenants input into the facility and their space and the importance of the GBI being configured to effectively and efficiently cater to incubating firms. Tenant candidates should be asked to identify the specific space(s) that they want to occupy, and to sign a lease (or at least an intention to lease space). A rental rate sheet for the various leasable spaces in the GBI facility should be prepared as soon as possible that references the price per month for the space and whatever services and features are included in the price (see Section VI.D for pricing guidelines). The GBI developers should strongly consider requiring a deposit at this time, so that only serious entrepreneurs and companies will begin reserving portions of the facility. This pre-completion leasing effort must be done using whatever entrance guidelines or criteria are adopted for the GBI; preferably, those guidelines or criteria will be developed beforehand, and used to screen companies when the initial tenant candidate database is being compiled (see Section VIII.A for recommended admissions guidelines).

Individuals and companies in the aforementioned database should be given first opportunity, after anchor tenants requiring significant amounts of space, for leasing space in the GBI. They may be notified of this opportunity via email or a mailed announcement. Media notices, and advertising if necessary, should be used to get the message out to others that space is being pre-leased. The GBI website also should be expanded to include information about space that can be leased or preleased, pricing information, and an indication of who should be contacted if an entrepreneur is interested in leasing space.

Smaller, non-incubating anchor tenants, such as small offices for existing attorneys, accountants, and similar service providers, should be identified and committed at this time. Their presence may be useful as an incentive to prospective tenants to locate in the GBI, and their ongoing contact with small businesses may lead them to refer additional tenant candidates. Such tenants should be restricted to small offices that are leased at or above market rates to help allay possible criticisms from other commercial real estate owners who might object to the GBI leasing space at below market rental rates to established service providers.

Care should be taken in working with any prospective GBI tenant that is currently leasing space elsewhere in Gallatin. The goal is to help such companies find the best location and resources to ensure their success, while at the same time avoiding simply relocating a number of firms. The entrance guidelines suggested in Section VIII.A should be useful in determining when a firm with an existing rented space in the community should be considered as a tenant in the GBI.

The grand opening of the GBI should be a major media and business community event. The timing of this event should not be delayed much beyond the initial opening date for the GBI because of its importance in attracting additional potential tenants and affiliates who have waited to see what the incubator would actually look like, or whose business formation coincides with the project's completion. A revised marketing brochure, which emphasizes what services are available at the GBI, should be available at the Grand Opening (and afterwards) for dissemination to prospective clients of all types.

As part of the Grand Opening, a prominent advertisement should be taken out in the local newspaper that announces the GBI's opening, lists its services, acknowledges the contributing organizations and individuals, and invites other companies and entrepreneurs to consider becoming tenants or affiliates. An article about the GBI also should be sought at this time, in both local and Nashville regional newspapers.

The early months of operations in the GBI should include a concerted effort to help settle tenants into their space and address problems with facilities, equipment and/or services. This is a critical time for the GBI to develop a reputation for being responsive to tenants and affiliates, since some firms will undoubtedly wait and watch to see if the GBI lives up to its earlier promotion and promises before deciding

whether to become involved. While major changes in the types of services being offered should not be made too hastily, this is an appropriate time to begin adding new services and eliminating others.

Internal to the GBI, GCGI recommends that staff begin to establish opportunities for networking and other relationship building among tenants, including anchors. Care must be taken to create the kinds of bonds and relationships that are critical to an incubator's success, while at the same time not creating a negative or competitive attitude of tenants in different GBI buildings (based on the vision that incubating tenants may occupy space in both front buildings, and anchor tenants in the back building, although this may differ depending on space needs and preferences).

GCGI suggests that the developers periodically convene a focus group to identify other prospective tenants and affiliates for the GBI. This group would consist of 5 to 10 bankers, public and private business service providers, and community leaders. The purpose of the focus group is to brainstorm about emerging entrepreneurs and existing businesses that might be suitable tenants. The synergy of such groups has proven to be valuable in other communities; for example, one participant will recall that she heard about someone who is working out of their garage but she doesn't know the individual's name; that will spark the memory of a second participant who says the description sounds like someone he counseled or met and can provide their name; a third participant recognizes the name and is able to provide some basic information about the person, their character, and their credibility that leads the group to decide whether or not to contact this candidate. GCGI recommends that new individuals be brought into each focus group to ensure that fresh ideas are presented regarding potential tenants, although some overlap of participants is permissible.

When the GBI becomes functional, its conference room may become a good location for seminars and workshops of interest to small businesses and entrepreneurs. The GBI might host some of the workshops or courses put on by the SBDC that are small enough to be accommodated in the conference room. The purpose of hosting these training activities, in addition to being a public service, is to introduce companies and entrepreneurs in the area to the GBI. Each training event might start with the GBI Manager welcoming the group, and saying a few words about the GBI before introducing the speaker or SBDC representative -- those "few words" should include a summary of the GBI programs and services, how someone can become a tenant or affiliate of either the GBI, and an invitation for any interested persons to see the Manager during the training refreshment breaks. The GBI conference room also may be made available to other companies located in the Gallatin industrial area both to demonstrate that the GBI is part of the local business community and to further expose the incubator to that community.

An effort should be made to provide information about the growth and success of the GBI through press releases, civic club presentations, and mailings. Individual client successes, achievement of certain milestones (e.g., when the number of tenants

reaches 10 companies), and highlights of upcoming activities should be included. These announcements should be accompanied with an invitation for potential tenants and affiliates, as well as service providers, to become part of the GBI. These announcements also should be posted on the GBI website.

GCGI recommends that the GBI Manager work closely with the anchor tenants during this period. The Manager should be ensuring that the anchor tenants are both satisfied with their space and ancillary services at the incubator, and not unreasonably using GBI resources to the detriment of the incubating tenants. The Manager also should work with the anchor tenants to identify opportunities for interactions and relationships with incubating tenants. These opportunities may include mentoring relationships, and incubating tenants serving as suppliers of goods and services to the anchor tenants.

A strong effort will have to be made to continue the marketing effort as the Advisory Board of Directors and others on the GBI development team become immersed in the issues of construction and finance. GCGI suggests that someone on the advisory board be assigned continuing responsibility for marketing, and that their facilities guidance or oversight responsibilities be minimized. The website should be continually updated to reflect the GBI's development progress.

IV.B. INTERMEDIATE-STAGE MARKETING EFFORT

The intermediate stage is defined to be approximately the 13th through the 36th month of operations. This time period will include continued operation and increased occupancy of the GBI.

By this time, it is probably appropriate to make significant alterations to the services being provided by the GBI. Some changes can be made on the basis of comments made by existing or prospective clients, and based on the lack of use of some services during the initial months of operations. Additionally, GCGI recommends that early tenants and affiliates be surveyed, at least informally, about their level of satisfaction with the GBI and asked to suggest changes in the service offerings. Adjustments in the services and resources (e.g., photocopy equipment) offered in one GBI building must be matched by similar changes in the other buildings to minimize perceptions of preferential treatment of one building's tenants over another's. However, unique or specialized equipment does not need to be found in every building, but instead one such piece may be found in one building while another piece is found in another building so that one facility does not appear to be favored by GBI management over the other.

Similarly, alterations might be made at this time to the GBI facility, including the types and sizes of leasable space based on refinements to the intended market for the GBI and to better reflect the needs of the tenant companies. Modifications to the GBI facilities should be made on basis of what is in the best long-term interest of the

incubator and its present and future tenants, and not unduly swayed by unusual needs of a current tenant.

Successes in the GBI and among its tenants and affiliates should continue to be publicized during the intermediate period. The local and Nashville regional media might be willing to run a substantial article at the end of the GBI's first and second years of operations to highlight its accomplishments. It might include testimonials from several tenants or affiliates about how the GBI has assisted their firms. This article could be instrumental in encouraging more companies to become GBI tenants or affiliates.

The focus groups convened in the early-stage marketing effort should continue to be utilized during this intermediate stage, as needed, to identify new clients for the GBI. GCGI also recommends that the GBI Manager continue to work closely with the anchor tenants on issues pertaining to facilities, mentoring, and supplier relationships with incubating tenants. Similarly, the Manager will need to work with incubating companies that establish supplier relationships with anchor tenants to build their capability to meet their obligations and to counsel the incubating tenants on how to diversify to avoid over-dependence on a single or dominant customer.

At least some of the early tenants in the GBI should be growing during this intermediate stage, and the GBI Manager should be looking to accommodate those tenants with additional or different space. GBI tenants who appear to require additional space might be encouraged, through financial incentives, to now lease the expansion room that they will need. The financial incentives could include a reduced price per square foot of the space until the company can begin using it productively. For ease of administration, the company and Manager should agree on a reasonable timeframe (such as six months) for the increased utilization of the space to occur and to structure a lease with progressively higher rents that coincide with that schedule.

The Manager and GBI Advisory Board of Directors may need to consider offering financial incentives if either substantial vacant space remains, or if the GBI is not achieving some of the requirements of its funding sources. Those financial incentives likely would include temporarily reduced rental rates for new tenants who fill space and/or help satisfy funding sources' requirements. In addition (or alternatively), the GBI may need to loosen, at least temporarily, its entrance requirements for tenants, or step up its marketing efforts to appeal to certain segments of the business community that need to be better represented among the tenant population. Any financial incentives or changes in the entrance criteria need to be reflected prominently in the GBI's website and other marketing materials.

The GBI might consider offering "finders fees" to current tenants of the GBI who identify others who ultimately become incubator tenants. For example, a \$200 credit might be given to any tenant who introduces someone else who becomes a tenant in

the GBI. The exact dollar amount can be adjusted to ensure that it offers adequate incentive without becoming a financial drain.

As the excitement and energy that surrounded the development and initial opening of the GBI wanes, it may be necessary for the Manager and GBI Advisory Board of Directors to remind key parties about the need for them to continue to refer potential tenants. These key parties may include organizations like the Greater Gallatin Chamber of Commerce, the VSCC SBDC, and businesspersons (including bankers) who encounter small, emerging, downsizing and relocating companies in their daily work. The President of the GBI Advisory Board also should periodically remind Board members that one of their most important jobs is to refer tenant candidates.

The GBI Manager and/or Advisory Board members should consider returning to some of the civic clubs to which they spoke during the early-stage marketing efforts to update their members about the progress of the GBI. These presentations should include: (a) the message that the GBI has been successful in providing facilities and services; (b) a request that attendees refer potential tenants to the Manager; and (c) an updated marketing brochure (with sample floor plan) that can be distributed to interested attendees.

IV.C. LATER-STAGE MARKETING EFFORT

This stage is defined as Month 37 and beyond of GBI operations.

The focus groups convened in the early- and intermediate-stage marketing efforts should continue to be utilized, as necessary, during this later stage to identify new candidates for the GBI.

Media coverage should continue to be encouraged during the maturing stage of the GBI. Relevant newsworthy events include anniversaries and milestones in the GBI program, the election of new Board members and officers, and tenant graduations and accomplishments. Many of these events are not only newsworthy, but also are cause for celebration within the GBI, which should be encouraged and initiated by the GBI staff to strengthen the networking and bonds between tenants (both incubating and anchor), and between tenants and the staff. One means of internal celebration is for the tenants to be invited to an impromptu reception in the GBI conference room at which refreshments are provided and an announcement is made about a tenant company's success in landing a contract, securing financing, or achieving a certain milestone.

The GBI Manager should continue to survey tenants and affiliates to determine their level of satisfaction with the facility and services, and to solicit suggestions for changes or additional services. Keeping the current tenants satisfied is critical because their dissatisfaction might hinder efforts to recruit additional tenants, and their departure would reduce occupancy. However, tenant expectations need to be managed from the start of the GBI's marketing efforts, and some requests may be

financially impossible or unfair to other tenants. Nonetheless, GCGI recommends that the GBI should make all reasonable efforts to keep current tenants satisfied.

As the GBI matures, it may find that clusters of particular industry types emerge among its tenants. These clusters, which may consist of three or more tenants in the same or related industries, often are not expected during the planning of an incubator; the management and board may not even realize that a cluster of similar firms is emerging as they admit new tenants. If such clusters begin to occur, the GBI should decide whether the type of industry in the cluster is desirable and should be fostered. If it is, then adjustments may be made in the space and/or services provided. If the cluster is not desired, then the GBI should adjust its marketing efforts to discourage such companies from applying for and being admitted, and existing tenants in the cluster should be encouraged to exit as soon as is reasonable.

While some tenants of the GBI may begin graduating and leaving in the early or intermediate stages of the marketing efforts, more graduations will occur in this later stage. The graduation of tenants from the GBI should be managed carefully. A substantial number of tenants (or only a couple that are large) leaving at approximately the same time may create cash-flow difficulties for the GBI. In such cases, some graduating tenants should be encouraged to stay a bit longer to ease the transition process. The GBI also may ask graduating companies to donate the value of their security deposit. This charitable contribution does not cost the graduate any out-of-pocket money at that time, since the deposit was paid when they entered the GBI. This contribution would help reduce the financial impact on the GBI from a tenant graduating and leaving unleased space. Other tenants that are ready to graduate may be enticed to remain as anchor tenants, which may be particularly beneficial if some of the original anchor tenants of the GBI leave the incubator. Care must be taken, however, to maintain sufficient space for incubating tenants to meet the mission of the GBI and accommodate enough incubating tenants for synergy and networking benefits.

As the GBI matures, members of the media and others may want to ask whether the program has been successful, and to what degree. The GBI Manager and Board of Directors should devise a relatively simple database of tenants, past and present, that can be used to track a few key variables, such as the number of graduated firms, the number of failed ones, and the type and number of jobs created by tenants and graduates. The accomplishments of the GBI should be compared with the original and evolving expectations of its sponsors, to determine its level of success and determine whether corrective actions are necessary in any area. The GBI Manager and/or Board may want to proactively disseminate press releases regarding success in meeting and exceeding the incubator's goals and expectations.

V. FACILITY RECOMMENDATIONS

As shown in Figure 1, the assumed location of the GBI is due east of downtown Gallatin, on Airport Road in the Gallatin industrial area. Formerly the headquarters of ServPro, this site consists of three buildings that total about 63,000 square feet on a 15 acre site.

Although the separation of the leasable into three buildings presents challenges in managing the incubator and encouraging interaction among tenants, it

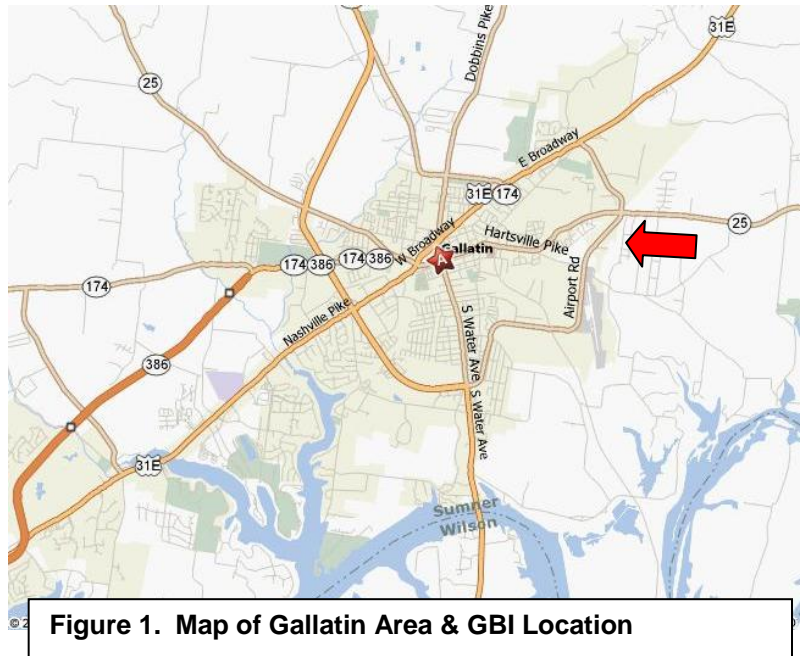


Figure 1. Map of Gallatin Area & GBI Location

- (a) allows separation of less compatible uses,
- (b) allows a building to be dedicated an anchor tenant(s) who is not fully compatible with incubating tenants,
- (c) makes it easier to “mothball” a building until such time as the incubator needs the space, and
- (d) might allow the incubator to sell a building (or some of the undeveloped site) to create a pool of funds to start a revolving loan fund or other needed service.

This facility will accommodate a wide variety of incubating tenant types; the front building and front half of the middle building are clearly best suited for office uses, while the back half of the middle building (and the back building, which GCGI does envision as being acquired by the incubator) could accommodate light assembly and manufacturing, and light laboratory uses. The site is very visible to heavily-traveled Airport Road, and is well known in the community because of the long-time presence of ServPro as a major player in the Gallatin area economy.



V.A. DESIGN RECOMMENDATIONS FOR THE GBI FACILITY

The following suggestions should be considered as the ServPro facility is renovated and adapted for use as the Gallatin Business Incubator.

- GCGI recommends that a new space of approximately 2,500 square feet be constructed to link the front and middle buildings. This space will become the new main entrance into the incubator, and will include much of the common areas such as reception area, conference room, break room, and handicapped accessible restrooms.
- Strive for 80% of the floor space to be leasable. This objective will require some work, since the facility should include common areas like a conference room, break/lunch room, and a reception area, but it should be achievable if care is taken to (a) not dedicate too much (or too large) of space to these common areas and (b) the existing floor plan of the ServPro facility is modestly altered to minimize, for example, walk-through offices that cannot be leased because they are essentially hallways for the incubator tenants. Inclusion of a newly constructed entry that links the front and middle ServPro buildings also will help active this net leasable goal, since that entry will include some of the more space-intensive common areas. Achieving this high percentage of leasable space also is critical to the financial viability of the GBI, and therefore this is a very important goal for design of the incubator.
- Seek to use an architect that has previously designed incubator facilities, or at least has more than a cursory understanding of the unique design requirements involved. GCGI also recommends that the preliminary floor plans for the GBI be critiqued by someone who is experienced in developing and managing business incubators to identify design concerns that can be addressed early in the renovation process.
- Locate the Manager's office, reception area, conference room, lunch room, and work area (i.e., where common office equipment like the copier and facsimile machine are located) adjacent to each other, in a central location (preferably the proposed newly constructed facility that links the front and middle buildings), and where the lunch room and work area can be accessed by tenants after business hours and on weekends.
- Place GBI manager's office in a less desirable space (e.g., interior office without windows). A common error is to give the Manager a highly desirable space, which should instead be reserved for paying tenants to maximize rental revenue in the incubator. This should not be done, however, if it sacrifices the previous recommendation that the manager's office be in a central location and contiguous to the reception area and other common resources.

- Develop areas where tenants and the GBI staff will “unintentionally” interact. Much of the useful interaction in an incubator occurs when people “bump” into each other, rather than at formally called meetings and appointments. The GBI should create spaces where such interactions are likely to occur, and should minimize the number of entry and exit points into the incubator buildings (while being cognizant of building codes) to create more opportunities for people to “run into each other.” Multiple-stall restrooms also are helpful in this regard.
- GCGI cautions that the GBI developers must carefully consider the development and operational expenses of any specialized facilities and/or equipment that are included as common resources in the incubator. Other incubators have assumed heavy financial burdens when they added such resources without an adequate analysis about their impact on leasable space and operating costs such as utilities and maintenance.
- If financially feasible, construct the facility improvements using materials, equipment, and finishes that will reduce maintenance and replacement costs, thereby reducing operating expenses.
- Avoid cubicles and other open office concepts in which individual tenant companies cannot adequately secure their space from others. However, open office areas within a single tenant company’s space may be acceptable, provided that there are still subareas in which tenants can secure data and hold private meetings and conversations.
- Avoid long rows of smaller offices facing onto a common corridor, and strive instead for smaller clusters of offices accessed from side halls that may encourage interaction among adjoining tenants. Such an area also can be more easily converted into single tenant’s office cluster.
- Standardize finishes in the tenants’ spaces, to avoid the headache (for example) of having to track 10 different paint colors and flooring for 10 different tenants. Appropriate customization, such as providing specialized laboratory benches and utilities, should be made at the tenant’s expense (either paid for by the tenant at time of installation, or reimbursed over time through higher rental rates). GBI leases with its tenants should stipulate that such specialized facilities will be either left or removed, at the GBI’s option, at the end of a tenant’s tenure in the incubator.

- The design should attempt to anticipate future requirements and changing technologies. As examples, some floor drains may be installed because of the prohibitive expense of adding them after construction is completed, and conduit and chases should be designed in anticipation of significant power requirements for future tenants.
- Do not separately meter each tenant's portion of the facility, because the cost of wiring each space for its own meter and the added cost for multiple meter readings and base charges will likely exceed the advantages of doing so. GCGI recommends that utility costs be included in the rental rates the incubator charges its tenants. Two exceptions may be tenants who have exceptionally high utility usage, and anchor tenants with substantial amounts of leased space. In such cases, it may be preferable for the GBI to require the tenant to install a separate meter and pay their utility costs directly. Alternatively, the GBI may have a meter installed by a licensed electrician (at the tenant's expense) that is read regularly by the GBI staff (versus the utility company) so that the tenant can be billed accordingly. Another option is to have an electrician, utility energy conservation specialist, or other appropriately skilled individual estimate the consumption of major pieces of equipment by their level of usage and power consumption ratings and use this approach to fairly bill larger users of electricity.
- If budgetary limits or other considerations do not allow for construction of the recommended 2,500 square foot entry facility linking the front two buildings, then a common covered entry walkway should link the front two buildings, both to physically protect from the weather tenants and employees walking between the two buildings, and to suggest a stronger link between incubator tenants in both facilities. A porch, sitting area, and/or eating area also might be incorporated in this linkage area. However, it will need to be clear that this is not a designated smoking area, as the GBI does not want to discourage its use by non smokers.
- Ample signage should be provided throughout the GBI. A larger, attractive sign (consistent with Gallatin planning and zoning codes) should be present along Airport Road. Signage distinguishing the three buildings should be located on each building (e.g., GBI Building 1, GBI Building 2) and in the parking lot to help direct visitors (tenants should be encouraged to include their building designation in their address and in directions they give to visitors). Signage directing visitors to the GBI reception area also is important. Consideration should be given to inclusion of tenant company names being added to the building designation signs,

and/or signage inside each building, but the GBI lease should clearly state that tenants cannot erect their own signage.

VI. OFFICE, BUSINESS, AND TECHNICAL SERVICES

An incubator is much more than a facility that houses businesses. It needs to provide services that meet the needs of its clients and tenants in their quest to survive, grow, and prosper. This section addresses the kinds of services that the GBI might provide, who might provide them, and how they should be priced. It also includes a discussion of the advantages and disadvantages of “bundled” versus “stand-alone” services are discussed, and a recommendation is included as to which type of service the GBI should offer.

VII.A. SUGGESTED SERVICES IN THE GBI

At the most basic level, the GBI should provide a variety of office services that can be shared by tenants and affiliates and paid for by each on an “as-used” basis. These services vary greatly from one incubator to another. Offerings to be considered by the GBI include the following:

- telecommunications system (e.g., telephone instruments, lines, answering service, voice mail, conference call capabilities, and high-speed data transmission);
- lockable mail boxes for tenants and affiliates;
- mail services [mail drop, expedited access to package delivery services (e.g., UPS or Fed Ex, etc) postage meter, and scale];
- audio-visual equipment (e.g., TV/DVD, and computer/LCD projection system);
- conference room, with tele- and (preferably) video-conferencing capabilities;
- reception area including comfortable and attractive (but appropriately modest) seating area for guests and visitors;
- Office for the Day (i.e., a furnished office available for rental on an hourly or daily basis, with a small conference table to serve as an overflow from the conference room);
- clerical support (e.g., word processing, mailing preparation, and data entry);

- bookkeeping services;
- facsimile machine (receiving and sending, including after hours);
- assistance with establishing and maintaining email correspondence, e-commerce and websites;
- GBI website links to the websites of tenants and affiliates;
- notary public;
- photocopier, preferably with digital technology (self service, with collating and reduction/enlargement capability);
- reference library (e.g., books, magazines and software, some of which are generally available to tenants, the rest of which are for the Manager's use only); and
- lunch/break room including soft drink and vending machines, coffee pot, water cooler, microwave oven, dining tables, and chairs.

Other basic office services might be added if sufficient demand is expressed by incoming tenants or prospective tenant companies. These services may be unique to companies in certain industries that are attracted to the GBI (e.g., a shrink wrapping machine might be justified if several tenants are selling and/or shipping products in shrink-wrap packaging or nice document binding equipment if many tenants will be delivering high-quality written documents to their customers). GCGI recommends that, as tenants are being admitted into the GBI, a list of possible services (in addition to the bulleted ones above, which should be provided and available upon the GBI's start up) be developed and used to survey prospective tenants to determine their needs and interests before deciding any additional office services to be provided.

The equipment cost of office services needs to be built into the GBI budget. Three areas of concern are the photocopier, the telephone system, and furniture for the conference room, reception area, lunch room, and other common areas. These needs initially may be met through donations from entities that may be willing to contribute to the GBI's success but do not want to provide direct financial contributions. Eventual replacement of this equipment may be budgeted in a capital replacement fund, or may be covered by future donations; in part, the decision on how to best approach replacement of equipment should be made based on the GBI's operating financials and therefore its ability to set aside replacement funds.

A fourth area of concern is the high-speed data access system. GCGI cautions the GBI developers that this is an area of great interest to many small businesses, but also is subject to many rapid technological and pricing changes that make it very

challenging to meet current and future tenants' needs and expectations while still keeping the acquisition cost reasonable and maintaining an opportunity to break even or making a profit on its use. GCGI recommends that the GBI provide a wireless system for tenant use, and the infrastructure to accommodate individual tenant's preference to have their own wi-fi system. Tenants using the GBI provided system should be billed monthly based on market rates for similar Internet access in the Gallatin area; this amount can be determined by a phone survey as the GBI is being developed, and should be revised at least quarterly based on updates to that survey.

Also, creative ways of providing office services should be explored. For example, the Small Business Center (SBC) Incubator in Los Alamos, New Mexico, chose not to provide clerical and bookkeeping services itself because of the impact on staffing and the low probability of the incubator providing these services profitability given they were not part of the core business of incubating tenants and clients. Instead, the SBC recruited two tenants, one a secretarial service and the other a Certified Public Accountant (CPA), to provide these services to incubator tenants and clients (as well as outside businesses). This approach resulted in a "win-win" situation in several ways: The SBC had the services available to its tenants, the providers paid rent as tenants, and (in the case of the secretarial service) the SBC got credit for helping a new business get started.

The GBI also should consider accessing some office services that are available elsewhere rather than offering those services directly. For example, the GBI might initially seek out a videoconferencing capability that is available elsewhere in the Gallatin area, and negotiate a preferred usage rate for GBI tenants and affiliates. This arrangement would allow the GBI to offer an important service to its tenants and affiliates without incurring the cost for the needed equipment and facilities. Two possible sources of videoconferencing capability, which might be available to GBI tenants and clients at no or minimal cost, would be ServPro and Volunteer State Community College (VSCC).

In addition to office services, the GBI should provide business assistance and technical support services. As with the office services, these services vary among incubators and should be driven by the specific needs of the tenants.

An important indicator of the services that should be provided comes from the feedback of those persons who completed the incubator survey during the feasibility study for the GBI. Table 6 (page 32) shows the fraction of survey respondents who felt they needed business and technical assistance in a variety of areas. Data are shown for both the total pool of 191 survey respondents, and for the 28 respondents who expressed an interest in being an incubating or anchor tenant of the GBI.

These results suggest several conclusions. First, marketing is the area of greatest need for all respondents as well as for the potential tenants of the GBI, which is not uncommon among other incubator projects on which GCGI has done feasibility

studies and business plans. We think this, in part, is a reflection of marketing (and the 3rd highest category, market analysis) being an area in which businesses and entrepreneurs always feel they don't know enough and can always learn more. Second, business planning ranks as the 2nd highest category, which suggests that the Gallatin incubator must provide assistance with this basic need, and GCGI would not suggest that the incubator require entrepreneurs to have a business plan completed before being considered as a tenant (put another way, entrepreneurs are seeking assistance with business plans, and therefore this needs to be a service in the incubator, not a requirement for admission). Third, financial issues are clearly important to entrepreneurs in the Gallatin area, including potential tenants of the incubator, but they are not restricted to finding funding—they also need help with conducting financial analyses and understanding and complying with taxation laws and requirements. Fourth, potential tenants are in greater need of assistance than are the overall pool of survey respondents, which is a positive response: because incubators should provide business assistance as a cornerstone of what they offer small and start up businesses, then those firms with greater needs for business assistance should be attracted to the incubator. Further, if the potential tenants by and large did not want or need business assistance, then GCGI would be concerned that potential tenants were only seeking a location for their firms and therefore the value and potential payoff from a Gallatin area incubator would be greatly compromised. Finally, with the services in greatest demand by potential tenants being very similar to those requested by all survey respondents, GCGI recommends that they Gallatin incubator also provide services to non-tenants.

Table 6. Business and Technical Assistance Needed By Survey Respondents

Area of Assistance Needed	% of All Respondents n=191	% of Potential Tenants n=28
Marketing	48%	71%
Business Planning	36%	54%
Market Analysis	31%	54%
Finding Funding	24%	43%
Financial Analysis	22%	46%
Taxes	22%	43%

To expand on this latter conclusion, GCGI recommends that the Gallatin incubator provide services to three categories of small and start-up businesses. First, it should provide services to tenant companies. Second, it should provide services to non-tenant firms that establish an ongoing relationship with the incubator, called affiliates. And third, it should provide services to non-tenant firms that do not want such an ongoing relationship. Tenant companies will receive much of their business assistance at no cost, as part of being a tenant in the GBI. Affiliates will receive some service at no cost, while others will be at a reduced fee; for example, a taxation seminar at the GBI will be available at no cost to tenants, and at a discounted fee to affiliates. Non-affiliate outside firms will be charged for services at the GBI, unless they are being provided through some third-party, such as the VSCC Small Business Development Center, in which case the service pricing policies of that third party will dictate how the company is charged for the service. In the

example of the taxation workshop at the GBI, this third tier client would pay the full registration fee of the workshop.

These conclusions hold several implications for what GCGI recommends for GBI's provision of business assistance services:

1. The availability of business assistance services appears to be a major selling point for the GBI, and therefore should be a major focus during the development of the incubator and a prominent part of the GBI marketing message or effort.
2. The GBI will need to work closely with service providers in the area to ensure that the services offered are comprehensive and high quality, and (in the case of highest priority services, per Table 6) likely in greater depth than found elsewhere. For example, the SBDC might already provide a business plan preparation workshop, but the GBI should plan to offer a more intensive program, such as the NxLevel or Fasttrac program, perhaps in conjunction with the SBDC if they want to expand their offerings. GCGI recommends that the GBI have available to tenant companies the full spectrum of business assistance services, particularly market analysis and marketing, business planning, and financial analysis.
3. The GBI Manager may need to be proactive, assessing tenant service needs after they have availed themselves of a training event or consultation, to determine whether the tenant needs additional assistance in the area of need.
4. The GBI will need to carefully structure what is offered non-tenant, non-affiliate clients, to avoid undermining the value of becoming an affiliate or tenant, while at the same time not creating such a complicated differentiation that it is difficult for prospective clients to understand or difficult for the GBI to administer.

In addition to business assistance services, survey respondents also were asked to indicate whether two common services would benefit their businesses. Table 7 (page 34) shows the results. The pool of respondents in the first column is restricted to only those respondents who might use the GBI, either as a tenant or service client (n=94).

The vast majority of potential tenants (71%) who responded to this survey question believe that high speed Internet access is an important service in the incubator; therefore, GCGI recommends that the incubator tenants having the option of tying into GBI-wide high speed Internet access, preferably wireless. However, tenants also should be able to link to their own Internet provider and not use the GBI infrastructure.

Videoconferencing is not in high demand, and is of less interest to potential tenants than to the larger pool of potential affiliates and other GBI service recipients. Given the lack of strong demand, along with the potential cost of providing videoconferencing capability, GCGI recommends that GBI make arrangements for

GBI tenants and affiliates to access videoconferencing elsewhere, perhaps on the VSCC campus. Additionally, GBI might encourage tenants and affiliates to use low cost, but less elegant, videoconferencing capabilities such as Skype, by offering training on how to set up the hardware and software, and tips on effective use of video communications in business applications.

Table 7. Other Incubator Services Desired by Survey Respondents

Incubator Service Desired	% of All Potential Tenants & Clients n=94	% of Potential Tenants Only n=24
High-speed data transmission and communications	49%	71%
Videoconferencing capabilities	28%	21%

Table 8 is an excerpt from a recent NBIA publication indicating what fraction of mixed-use incubators offer certain services. Only those services that are offered by 70% or more of mixed-use incubators are shown. Many of the services shown have already been discussed; e.g., marketing assistance and financial-related services. GCGI notes the first service, and the one that is offered by more than any other service among mixed-use incubators, is business basics. Incubators sometimes assume basics are not valued, or provided sufficiently elsewhere, but the results of this NBIA study reflect GCGI's own experience: tenants want ready access to the basics of creating and growing a successful small business.

Table 8. Common Mixed-Use Business Incubator Services

Service	% Mixed-Use Incubators Offering
Help with Business Basics	97
Marketing Assistance	82
Accounting/Financial Management	74
Help with Access to Loans	75-80
Links to Angel Investors/VCS	81
Networking Opportunities	76
Links to Higher Ed Institution	70
Shared admin/office services	77
Internet access	79

SOURCE: S.Linder, 2002 *State of the Business Incubation Industry*, NBIA, 2003

Table 8 also shows the importance of networking, and shared administrative and office services. These, too, are very basic services, and can easily be overlooked by mixed-use incubators. Once again, GCGI's own experience suggests these services are highly valued. Finally, Table 8 shows the importance of links to colleges and universities; this is made easier with the GBI links to VSCC, but a challenge exists for the incubator to determine the features of the college that are of greatest value and importance to tenant companies and affiliates. It is doubtful, for example, that GBI clients will want degree-oriented programs from VSCC, but may greatly value student internships, access to videoconferencing capabilities, greater access to the SBDC resources, or creation of an executive entrepreneurship course held on evenings and weekends around a few key issues relevant to an early stage or start up business owner.

These conclusions again lead to recommendations for providing incubator services in the GBI:

1. Ample time, attention, and resources need to be devoted to determining the appropriate telecommunications system for the GBI because of the great importance placed on high-speed data transmission and communications. Current, state-of-the-art, emerging, and future telecommunications technologies should be considered in the analysis, which needs to look at cost (acquisition and operation), maintainability, flexibility, and adaptability. GCGI recommends, to the extent possible, that the Internet system be wireless, given this should reduce the cost of the system (by avoiding having to put in hard wiring throughout the GBI buildings), and the great flexibility of being able to access the Internet everywhere and not be restricted to hardwired outlets.
2. The GBI should not make the mistake of some incubators, namely to provide specialized facilities and equipment (such as the videoconferencing capability) that will be expensive to create and maintain, and not be in high demand by tenants. Instead, alternatives such as accessing such resources elsewhere in the community, and using low cost alternatives like Skype, should be utilized.
3. Networking will take on some special challenges for the GBI, because of the GBI facility consisting of two separate buildings. Close proximity of the two buildings will make this easier, but GCGI's experience is that even incubators with multiple floors have challenges in linking tenants on one floor with those on another. Careful placement of common resources, like the reception area, conference room, lunch room, and work area, will be important. Training events, celebrations of tenants' successes, and monthly tenant luncheons also can be important in bringing tenants together. The GBI should be prepared to offer food and drink at activities such as celebrations and luncheons, as they can often entice someone out of their office. Other opportunities to bring tenants together include holding an "incubator night" at a nearby sporting event where tenants and their families are invited to sit together and enjoy each other's company, holding a pot luck luncheon every year before Thanksgiving to which family members of tenant companies and their employees are invited, and having an annual tenant barbeque at a nearby park. Some of these issues will be resolved if the two buildings are joined by a newly constructed, 2,500 square foot entry structure as suggested elsewhere in this business plan, and if the design of the two buildings and joining structure is carefully done to encourage the flow of tenants and their employees towards common areas and a limited number of entrance/exit points.¹⁰

¹⁰ Limited entrance/exit points in the incubator make it more likely that tenants and their employees, as well as GBI staff, will unintentionally interact with each other. GCGI recognizes the importance of having adequate building exit points to meet emergency exit requirements, but recommends that not all emergency egress points be readily usable for routine entrance and exit. For example, "crash bars" on the insides of emergency doors makes building exit easy, while they can be locked so that

4. GCGI would like to see the GBI explore innovative and unique ways that the incubator can benefit from its relationship with VSCC. This might be done as the GBI is being developed or, alternatively, once the incubator is operational during the Intermediate Stage of its marketing plan (see Section IV.B).

Finally, if the GBI adopts GCGI's recommendation that it cater to tenants beyond the typical start-up and early-stage businesses, then the GBI should consider providing appropriate services for those tenants. For example, GCGI recommends that the GBI could serve as an initial location for out-of-town companies that are considering establishing a local presence, or relocating to the Gallatin area. If the GBI serves this function, it should provide services and coordinate with existing service providers like the Gallatin Economic Development Agency to link such tenants with potential customers and suppliers, sources of local market data, and other services more typically provided in an economic development recruitment effort. Similarly, the GBI should be available to existing small firms that are downsizing or are in jeopardy of failing; the incubator could work closely with the SBDC, and local CPAs and attorneys, to craft a turnaround strategy for the firm or, if survival does not appear likely, an appropriate plan to terminate operations.

VI.B. EXTERNAL SOURCES OF SERVICES

The goal of an incubator program should be to help make available services that will encourage the growth and success of the tenant and affiliate businesses. This goal, however, does not necessarily mean that the GBI needs to directly provide all of those services.

Commonly, multiple business and economic development organizations provide similar or overlapping services. This duplication of effort is inefficient, confusing to the person or company seeking the service, and (in the case of publicly supported providers) a waste of tax dollars.

To avoid such a problem, the GBI should first determine which of the services it plans to provide its clients and tenants are already available from any external sources. The GBI should strive to use an external source (rather than directly providing the service itself) if the service is available under the following conditions:

- fairly priced (i.e., affordable to the client or tenant);
- competently provided (i.e., the source is providing a high-quality service); and
- reasonably available (i.e., neither time nor geographic distance, nor preferential treatment of other service requestors, unreasonably limits access by tenants or affiliates).

A second reason why the GBI should rely on external sources of some services needed by its tenants and affiliates is that the Incubator Manager and Board

outside entry is restricted. Also, some emergency exits can be alarmed and therefore only usable in dire circumstances.

members cannot be experts in all areas of possible need. The business world has become increasingly more complex, and the typical entrepreneur or small business owner needs to have access to assistance in areas ranging from tax law and product liability to exporting and Internet website design. In earlier times, incubator managers ideally were business generalists who relied on outside help in a few key areas. However, GCGI believes that the role of an incubator manager has increasingly shifted toward a “triage and brokering” role in which they help identify what a tenant or client needs, and then puts the tenant or client in touch with high quality external sources of expertise.

For both of these reasons, the GBI should be structured with an expectation that a cadre of external service providers will need to be available to tenants and affiliates to address at least some of their business and technical issues. These external sources will likely be a combination of public/non-profit and private professionals and consultants.

As reported in the feasibility study, survey respondents were more likely to use for-profit sources of assistance than public or non-profit ones. For example, all of the for-profit sources in the survey had been used by more than 50% of survey respondents, while some of the public/non-profit ones had been used by as little as 11% of respondents. At the same time, survey respondents generally rated the services rendered by public/non-profit service providers higher than those from for-profit sources, although no source of assistance (public/non-profit, or for-profit) averaged below the rating of 2.0, where 3.0 is “very helpful,” 2.0 is “helpful,” and 1.0 is “not very helpful.” Respondents also were very satisfied with the SBDC, with potential incubator tenants giving the SBDC an average satisfaction score of 2.7, the highest of all public/non-profit sources. The SBDC was closely followed by VSCC, with potential tenants giving the college an average satisfaction score of 2.6.

These results have several implications for the provision of services at the GBI. First, GCGI recommends the SBDC be located in the incubator. GCGI sees this as a win-win situation: the GBI benefits from the presence of the highly respected SBDC, and from the skills and knowledge that the SBDC staff can bring to incubator tenant and affiliate needs, while the SBDC gains greater visibility, access to more potential clients, and can receive some administrative support through the GBI receptionist. This relationship will need to be carefully structured and managed; GCGI recognizes that the VSCC SBDC is unique in that it relies on the college’s ability to annually secure donations from local sources to support the cost of the SBDC, and we do not want SBDC donors to misunderstand that the incubator is somehow replacing, or reducing the need for, the VSCC SBDC. At the same time, the survey results indicate broad community support for the incubator, and therefore the SBDC’s relationship with the GBI could positively influence donors, as the GBI will not solicit direct monetary contributions and therefore local donors, wanting to support entrepreneurial assistance including both the SBDC and the GBI, are encouraged to continue contributing to the SBDC, perhaps at an increased level.

Second, the GBI management should attempt to ascertain why prospective tenants have a lower utilization rate of public/non-profit sources of assistance. Because survey respondents gave these public/non-profit sources a higher satisfaction rating than they gave to for-profit providers, GCGI concludes that the lower utilization rate is not the result of real (or perceived) lower level of service quality. GCGI believes it may be because small and start up business owners do not know about all the public/non-profit sources that exist, or do not understand what services they provide. If this is the case (again, it needs to be confirmed by speaking with entrepreneurs and small business owners), then the GBI can play an important role by creating a list, for its tenants and affiliates, of all public/non-profit sources, that indicates the services available from each. The list should only include sources that are affordable, credible, and accessible, per the earlier comment.

Third, the incubator can assist its tenants and affiliates in their utilization of for-profit providers by (a) offering advice on how to best utilize a for-profit provider, (b) enticing for-profit providers to offer reduced cost services, at least initially, for incubator tenants and affiliates, and (c) considering creation of a “consultant subsidy program,” in which tenants can be reimbursed by the GBI for a portion of the private service provider’s invoice for services rendered.¹¹

Regardless of whether GBI tenant companies believe local sources of assistance are adequate for their needs, GCGI recommends the incubator establish relationships with specialized service providers, both public/non-profit and for profit, throughout the Nashville region. For example, it is unlikely that an attorney practicing in the Gallatin area could adequately advise a GBI tenant about patent law or the pros and cons of an initial public offering, but GCGI suspects such knowledge and expertise can be found in the greater Nashville metropolitan area. GBI management should identify such resources, perform some basic due diligence to ensure the quality of the services provided, and then contact the resource about its possible interest in working with GBI clients. If interested, then the GBI Manager should link the resource with one or more tenants or affiliates initially, and then get feedback from both the resource and the tenants and affiliates about the suitability of the interaction, before determining whether a longer term relationship is appropriate and desirable. If it is, and if the expertise appears to be something that other GBI tenants and affiliates will require on a regular basis, then the GBI Manager could negotiate rates of compensation.

¹¹ Under such a program, tenants and affiliates would be offered a training seminar or workshop on an area of interest, such as formation of a Limited Liability Company (LLC). Attendees of that training that had additional questions or needs beyond what could be handled in the seminar would consult, at no cost, with the GBI manager and any no cost (typically public or non-profit) service provider in the incubator’s network of assistance providers. If the tenant or affiliate still has needs (not unexpected in a legal issue such as formation of an LLC), the GBI would encourage the entrepreneur to seek assistance from a for-profit provider, like an attorney, and the incubator would reimburse the tenant/affiliate for some fraction of the provider’s charges; e.g., \$50/hour. This reduces the tenant/affiliate’s cost of getting the help they need, while still expecting them to share in the cost; otherwise, they may not place high value on the assistance if they have no financial stake in it.

GCGI recommends that the GBI consider leasing space to business and technical service providers. Not only does this practice provide additional tenants who can increase the occupancy of the incubator (and therefore make the GBI more financially viable), but also greatly enhances the opportunities for informal interaction between tenants and service providers. While some information flow occurs during formal appointments between tenants and service providers, GCGI has observed in its own management of incubators that substantial interactions occur in informal settings. For example, when a tenant and an accountant who has an office in an incubator run into each other in the lunchroom, they may make some small talk, but they also may find themselves discussing the tax implications of the tenant becoming an “S” corporation versus a “C” corporation. The presence of service providers “on site” can be a powerful value-added feature used to appeal to prospective tenants, and can add credibility to the GBI. These service providers should be charged rents at or above market rate (both because of the business opportunity being afforded them, and to answer critics who will erroneously accuse the incubator of being “unfair for giving service providers subsidized rent,” but should not be expected to graduate unless they fail to be accessible to GBI tenants and affiliates. These on-site service providers should not be given exclusive opportunity to present training seminars at the GBI in their field of expertise, because outside presenters help ensure that tenants and affiliates can benefit from more than one service provider’s perspective, and again to demonstrate fairness to non-tenant service providers.

VI.C. INTERNAL SOURCES OF SERVICES

As argued in Section VI.B, the GBI should strive to avoid providing services that will duplicate those available competently and affordably from other service providers. This perspective suggests that an important function of the GBI and its Manager is to put tenants in contact with such external sources. Note that the value-added feature here is the Manager’s knowledge of and contacts to competent and affordable sources of assistance, in addition to the Manager’s own business or technical expertise. GCGI believes it is critical for the GBI to become known as a place to go when a small or start-up company does not know where to turn for help or answers.

However, there are occasions when it will be appropriate for the GBI Manager or member of the Advisory Board of Directors to directly provide services to tenants or affiliates. One occasion is when the needed service is not available elsewhere, and the Manager or Board member has the appropriate expertise. A second occasion is when current providers do not provide high-quality services, or if the price is cost prohibitive for the tenant or affiliate. A third occasion may be when the tenant or affiliate needs only general or basic knowledge for which it would be inappropriate to involve an external source; for example, when a client or tenant is asking about the general advantages and disadvantages of raising capital through debt versus equity.

Dr. Mark Rice, former president of the National Business Incubation Association and former manager of the Rensselaer Polytechnic Institute incubator, analyzed the

things that tenants value in an incubator. His research indicates that, in addition to facilities, shared services, and assistance with business issues, tenants of business incubators tend to appreciate incubators that provide networking opportunities among the tenants and with the manager, and those that provide emotional support and enthusiasm to struggling entrepreneurs. Therefore, the GBI Manager and staff do not need to feel that every moment they spend with tenants and affiliates needs to be focused on specific business issues, because tenants and affiliates appreciate an opportunity to chat, brainstorm, share frustrations and successes, and relax a little.

Internal sources of assistance may include the GBI Manager, other staff, and also members of the incubator's Board of Directors. Future candidates for the Board should be identified by their areas of technical and business expertise, and their selection criteria should include what expertise they can bring to the GBI and its tenants and affiliates.

While there are few confirmed situations in which tenants have taken legal action claiming that incubator managers and board members are responsible for a problem in their business, this potential liability issue should be addressed. Some states have legislation that protects board members of a non-profit entity from significant liability for their actions, GCGI does not know if such legislation exists in Tennessee. Further, GCGI is recommending that the GBI be under the legal umbrella of the Gallatin Economic Development Agency, which is part of the City of Gallatin government. Therefore, the GBI should seek legal guidance on this issue, and consider acquiring liability insurance for the incubator's Board if sufficient protection is not afforded by Tennessee law.

As an employee of the non-profit, city-affiliated incubator organization, the GBI Manager should have a relatively strong level of protection from personal liability. However, the Manager's employment contract should stipulate that the GBI will indemnify him or her in any such instances.

GCGI also recommends that all clients and tenants and affiliates be asked to sign an indemnification statement that indicates that they will hold the GBI, Gallatin Economic Development Agency, and City of Gallatin harmless. Below is a sample of such a clause, based on what is used by some SBDCs:

In consideration of the GBI making referrals to and/or furnishing management or technical assistance, I waive all claims against the GBI, Gallatin Economic Development Agency, and the City of Gallatin personnel, board members, and related organizations arising from this assistance. I also request that the GBI refer me, when appropriate, to other local, state or federal assistance organizations, both public and private, that can provide the assistance I am requesting. I authorize the GBI to furnish relevant information to its counselors and to any assistance providers to which I may be referred,

although I expect that information to be held in strict confidence by those individuals and organizations.

The following is a similar clause, based on what is used by an existing incubator program:

Tenant specifically recognizes and acknowledges that the business venture to be undertaken by Tenant under this Lease depends upon the ability of the Tenant as an independent business person, as well as other factors, such as market and economic conditions, beyond the control of the Gallatin Business Incubator (GBI) and Tenant. Tenant acknowledges that success or failure of Tenant's business enterprise will be dependent on the business acumen and diligence of Tenant. Tenant agrees that success or failure of Tenant's business will not depend on the GBI's performance under this Lease and/or any the GBI service agreement, and neither the GBI, Gallatin Economic Development Agency, nor the City of Gallatin makes any representations or warranties as to the success of Tenant's business.

Something similar to either or both of these clauses should be signed by each client or tenant when they enter the GBI, as well as each affiliate. The clauses may be placed in a separate document, or can be included in the standard lease and services agreement, or in a handbook or policy manual for which each tenant or affiliate must give written certification that they have read and understand its contents. The GBI should not wait until a conflict arises with a tenant or affiliate and then attempt to get such a disclaimer signed.

VI.D. PRICING OF SERVICES IN THE GBI

A comprehensive set of office, business, and technical services is important to the GBI fulfilling its mission as a business incubator. Section VI has listed some specific services that should be considered for the GBI. However, GCGI suggests that the ultimate list should be market driven. GCGI recommends that external sources of services be utilized to prevent the GBI from duplicating what others already provide, assuming they are provided reasonably, competently and affordably. GCGI also recommends that the GBI price its services at a break even or profitable price whenever possible, and that appropriate steps be taken to avoid lost revenues through abuses of the honor system.

VI.D.1 Office Services

GCGI recommends that the GBI price its services in three tiers. First, a program should be established in which non-tenant companies can access a set of services for a fixed monthly charge. For example, a fee of \$65 per month might be charged to a company that wants to become a GBI affiliate because it wants ready access to the GBI library, workshops, and counseling; a certain number of free photocopies and faxes (say 200 copies and 10 faxed pages received or sent); and a discounted rate on services such as additional

photocopies (e.g., \$0.05 per copy) or phone answering services. Second, the GBI should establish an “a la carte” pricing sheet for those services to be offered to companies which choose to not pay the monthly fee but pay individually for services that they access. For example, photocopies might be priced at \$0.08 per page, and faxes at \$0.50 per page incoming or outgoing. A la carte users might not be given access to all services, especially if the GBI only has the capacity to provide certain services to affiliates and tenants. GCGI recommends that the GBI establish accounts for ongoing users of its a la carte services so that they can be billed monthly for their charges, while occasional users should be expected to pay by cash or check at the time that services are rendered. We also recommend that special pricing might be negotiated with a la carte users who need repeated use of a resource, or in special circumstances favorable to GBI (e.g., a potential tenant wishing to rent the conference room or office-for-the-day for an initial client meeting that could lead to a contract, and the company becoming a GBI tenant).

Third, tenants leasing space in the GBI should be under a different pricing schedule. Tenant companies should have the same type of access, discounts, and free services that are available to affiliates paying the \$65 monthly fee, but there should be greater financial incentives or benefits for tenants than for the affiliates. For example, tenants may be allowed four hours of free use of the conference room per month while affiliates may have only two hours of such use, and tenants get 200 free photocopies per month and a \$0.03 per copy rate thereafter.

Services should be priced on the basis of:

- the market rate for similar services elsewhere in the Gallatin area (as determined by an informal survey of prices at the time the incubator initiates operations, and at least annually thereafter);
- the cost to the GBI for providing the service;
- discounts for affiliates who pay the monthly \$65 fee that gives companies an incentive to pay the fee rather than use a la carte services; and
- deeper discounts or greater access for companies to entice them to become GBI tenants.

Ideally, services would be priced similarly to the going rate in the community to avoid undercutting other providers, and that price would equal or exceed the GBI’s cost of providing the service. However, if the market rate is deemed to be so high that it is harmful to small and start-up businesses, then the GBI may choose to charge a lower rate. If the rate charged by GBI in either case is below its cost, then a source of funding to cover the shortfall needs to be identified, and the estimated loss to the GBI from providing that service needs to be included in the annual operating budget. Alternatively, the GBI may decide not to offer the service at all, because services that would

lead to substantial financial losses must be carefully evaluated and the importance of the GBI providing that service must clearly justify the loss.

Most office services can (and should) be priced, at a minimum, to recover their full cost. Others, such as the high speed Internet communications and telephone systems in the GBI, often can be priced so that they are actually a separate profit center. Those office services that can be profitable depend on the demand of the tenants, accessibility by outside businesses, and the nature of value-added features that can make them attractive at prices above the GBI's cost.

While circumstances differ from one incubator to another, there are certain office services that usually lose money. Shared space such as a conference room, sophisticated laboratories, commercial kitchen, or office-for-the-day will seldom generate enough revenue to offset the amount of revenue that would have been generated if the same space were leased out to a tenant. Utilities that are shared among tenants also are a potential source of financial loss. When tenants are not separately metered, they are less likely to conserve energy. This practice may lead to higher levels of usage than was estimated by the incubator management, which means that the incubator may lose money if it charges for utilities based on that previous estimate rather than on actual use.

The potential to lose money on common areas like conference rooms and special labs suggests that the GBI should minimize the number and size of such spaces to the bare minimum needed.

One potential solution to the utility usage problem is to separately meter each tenant space. GCGI discourages the idea of separately metering individual tenants, although technology is available to do so, for three reasons. First, reading, interpreting and billing on the basis of separate meters for each tenant represents a significant administrative burden for the GBI management. Second, this practice negates the recommendation that the GBI bill a set price each month to each tenant, which reflects the rent on the space, common costs like property tax and insurance, and an "average" utility bill for that space (with average meaning the same amount is charged each month for utilities, which smoothes out seasonal highs and lows) which gives a tenant a more predictable monthly facility cost. Third, tenant attention can unintentionally be diverted towards their utility bill, and away from where it should be placed, which is starting, growing, and sustaining a successful business.

As an alternative to separate meters, GCGI has had some success with issuing memos to tenants informing them that overall facility utility consumption is higher than normal and that, unless consumption drops, the incubator will need to raise its rental rates to tenants—this threat has been

enough to get cooperation, although it cannot be used too frequently or it loses its effectiveness. Also, tenants that are unusually high energy consumers may be separately metered, or charged an energy surcharge based on their level of use of energy-intensive equipment or processes. The latter can be based on an analysis of the tenant's equipment by a qualified engineer or utility specialist, and simply looks at the power consumption of the equipment based on its specifications, multiplied times the number of hours that it will be operated during an average month, and that product again multiplied, this time by the per unit energy charge of the local utility. GCGI recommends that the GBI leases with its tenants give the incubator the right to either separately meter, assess an energy surcharge, or even raise the tenant's monthly rent if the prices charged the GBI by electric, gas, and other utility firms are increased during the lease period.

The profitability of office services at the GBI will also depend on the ability to effectively and efficiently detect and charge for use of the service. For example, many incubators have experienced sufficient losses from affiliates and tenants not reporting their full use of photocopiers that this potential source of profit has become a financial loss. Repeatedly, incubators have had to learn the hard way that the "honor system" does not work for reporting usage of photocopiers, fax machines, and postage machines as well as consumption from unsecured food or drink vending machines and refrigerators. GCGI strongly recommends that the GBI utilize readily available technology to record and limit access to such services, such as personal identification numbers (PINs) and access cards that identify users and keep track of all usage. This approach is much preferred to restricting tenant and affiliate access to such resources after business hours and on weekends and holidays.

The GBI should always strive to make money, or at least break even, on the office services it provides. The financial analysis leading to the determination of pricing these services should include the cost of replacing equipment, such as telephone systems and photocopiers, which will wear out or become obsolete.¹²

The GBI also needs to monitor changes in technology and/or market conditions that will require changes in pricing. For example, it was not uncommon for incubators to charge \$2 or \$3 per page for use of their fax machines in the early 1990s, but today's market (where tenants can buy their own fax machine for under \$100) would not support a rate of more than \$0.50

¹² Two words of caution here. First, there are instances of incubators that have created capital or equipment reserve accounts to accumulate money to replace worn out copiers, roofs, and other expensive assets, only to have an outside funding source conclude that this reserve should be used to cover operating deficits or other near term operational costs. Second, it may not be necessary to have a reserve for something like a photocopier if there is reasonable expectation that a replacement would be donated to the GBI from a local bank or other benevolent source.

per page and likely would require discounts for larger documents and/or transmittals that do not require long distance telephone calls.

Typically, some services are included with the base rent charged an incubator tenant. While the split between such rolled in charges vs. charges that are priced and billed separately based on a client's usage varies considerably among incubators, GCGI recommends the following for the GBI:

Included in Rental Rates	Charged Separately
Access to photocopier, fax, reception area, work & lunch rooms	Additional usage of copier & fax
Receptionist directing visitors to tenants	Phone answering service
1 st 200 photocopies, 1 st 10 faxed pages per month	Excessive utility usage
Coffee & tea	Snacks & soft drinks
Journals & periodicals access	Copies of journals & periodicals
Conference room or office-for-a-day use, 2 hours per month, non-cumulative	Extra use of conference room, office-for-a-day
Utilities, maintenance, snow removal, common area janitorial	Excess utilities, janitorial in leased space
Mail box, UPS & Fed Ex drop boxes & drop offs	Postage & supplies
Document preparation equipment	Document preparation materials (binders, covers, etc)
Access to high speed Internet	Own ISP, customized or tenant-specific Internet access
Tenant, employee, visitor parking	

VI.D.1 Business & Technical Services

As for business and technical services, internally provided services generally are not billed to tenants unless they require substantial resources and are considered outside the realm of what the incubator would ordinarily provide to a tenant. If this is the case, then the GBI would need to conclude that it is being asked to provide services beyond what can be reasonably provided to a tenant, and the incubator should then discuss with the tenant whether they want the GBI to provide the service at a price, or whether they will seek assistance elsewhere. If the tenant decides to use the GBI for the service, then GCGI recommends it be provided on a time and materials basis, with the incubator charging a labor rate equal to that of the Manager, a multiplier to help cover fringe benefits, overhead and general and administrative costs, and the actual cost of any materials or supplies required.

Although external services are billed by their providers, the GBI should strive to negotiate reduced cost or free initial assistance for tenants and affiliates by these providers. Except in markets where a particular expertise or specialty is in great demand, GCGI has found external service providers typically willing to at least provide incubator clients and tenants with no cost or reduced cost initial services.

As mentioned earlier, one option that would benefit GBI tenants and affiliates (and encourage them to utilize any external, for-profit sources of assistance that they need) is a fund to subsidize or pay for external services for its affiliates or tenants. GCGI has experience with such a fund in which clients needing assistance first contact the incubator manager with their needs. If the manager can satisfy the need directly or through no-cost public sources, then the affiliate or tenant is referred appropriately. If the expertise that is needed is not available internally or through no-cost sources, the incubator agrees to pay a fixed amount for each hour of assistance received from a private source (e.g., \$50 per hour) to reduce the net amount paid by the incubator client. A fund of this type is not recommended for the GBI until: (a) it can be verified whether cost is a factor in local entrepreneurs getting the external assistance that they need and (b) the GBI reaches breakeven and therefore can afford to offer some incentives. As an alternative to (b), the incubator might find a source willing to underwrite the “consultant subsidy program,” although care must be taken to not compete with the VSCC SBDC for local donations and contributions for business assistance.

VI.E. ALTERNATIVES FOR PROVIDING BUSINESS AND TECHNICAL SERVICES

Business and technical services typically are provided in an incubator using either a “stand-alone” or “bundled” model. The stand-alone model places primary responsibility on the incubator manager or tenant to identify services that might satisfy specific needs expressed by a tenant or affiliate. In contrast, the “bundled” model tends to focus on packages of services that tenants or affiliates can select, based on what they perceive to be their needs.

Both approaches have advantages and disadvantages. The primary advantage of the stand-alone approach is that it focuses on the specific, and often immediate, need of the tenant or affiliate. Its disadvantages include that it may be treating symptoms rather than root causes of problems experienced by the tenant or affiliate. The primary advantage of the bundled model is its ability to give tenants or affiliates a menu of services from which they can select, perhaps addressing needs the tenant or affiliate may have not previously recognized. Its primary disadvantage is its tendency to fit every tenant’s or affiliate’s unique needs and situation into a predetermined set of packaged services.

GCGI recommends that the GBI, at least initially, focus on the stand-alone model of service provision. In addition to its primary disadvantage of force-fitting prepackaged services to address unique tenant or affiliate needs, other incubators have found that the bundled model can be difficult and costly to establish and administer. GCGI believes that the GBI will have many other challenges as it begins organizing its programs and services, and the additional burden of establishing a bundled services program is not justifiable.

Once the GBI Manager becomes familiar with the needs and preferences of tenants and affiliates, he/she may determine that there are certain common needs that can be addressed more efficiently by means other than individual counseling sessions with the Manager or an outside service provider. For example, the Los Alamos Small Business Center (SBC), an incubator in northern New Mexico, found that many tenants needed to know how to register a new business with the federal, state, and local governments. Rather than repeatedly counseling new tenants on this issue, the SBC developed a written Business Registration Packet that included all of the instructions and forms needed by most new businesses. This packet had the additional advantage of serving as a marketing tool: newly-forming businesses often contacted the SBC for a copy of the packet which gave the SBC an introduction to prospective tenants and affiliates and an opportunity to brief the new entrepreneur on the resources available at the SBC. Both this kind of packet, as well as one that includes basic information and forms for filing a provisional patent, copyright, or trademark, might be beneficial for the GBI to consider offering.

VII. GOVERNANCE AND STAFFING

VII.A. DESIGNATION OF GBI INCUBATOR CHAMPION

As explained in the feasibility study, a champion needs to be identified for the GBI. The champion is an organization or entity that will take primary responsibility for the development and at least initial operations of the incubator. Several candidate champions were identified and discussed in the feasibility study.

The Gallatin Economic Development Agency (GEDA) was identified as a strong potential champion in the feasibility study. GEDA received generally high marks from persons interviewed during this project for its efforts to expand and strengthen the Gallatin area economy, and was rated well by survey respondents in terms of its helpfulness. The GEDA Executive Director has done a commendable job overseeing the economic development activity of the City, and understands the importance of a balanced economic development strategy that includes business retention and expansion, as well as entrepreneurship, and not just recruitment of outside industry. He has expressed interest in the GEDA being the champion for the incubator project, but also is to be commended for being willing to support another entity in the champion role as long as the incubator is within city boundaries. GCGI was impressed with his willingness to team with Volunteer State Community College on overseeing and funding this feasibility study, demonstrating once again a willingness to be a team player. He also has willingly took the lead in communicating the Gallatin incubator project to the Federal Economic Development

Administration (EDA) and clarifying with EDA that the GBI would be considered for funding within the remaining EDA disaster relief budget.

The main area of concern if the GEDA is to champion the Gallatin area incubator is its tie to city government. GEDA is an agency of the City of Gallatin. GCGI typically does not favor having an incubator championed or operated by a governmental entity, because of the differences in culture between government and entrepreneurs. GCGI's concerns are somewhat mitigated by the GEDA's relatively high level of autonomy from city government, which is required for it to be effective in its other economic development activities. For the GBI to succeed, GCGI believes its governance must be structured to maintain, and perhaps expand upon the GEDA's autonomy.¹³

GEDA currently is governed by a five person economic development advisory committee, the members of which are appointed by the Gallatin City Council, with recommendations being made by the GEDA Executive Director. GCGI does not want to dilute the focus of this advisory board on overseeing the general direction and activities of the GEDA; a project of the magnitude of the GBI could overwhelm the advisory board and consume all of its time and attention, which is unacceptable given the GEDA continues to enjoy considerable interest and attention from outside industry considering the Gallatin area for relocation and expansion projects. This concern, and the concern over autonomy from city government, leads GCGI to strongly recommend the formation of a separate GBI advisory board.

Figure 2 (page 49) indicates the basic structure recommended for the GBI's governance.

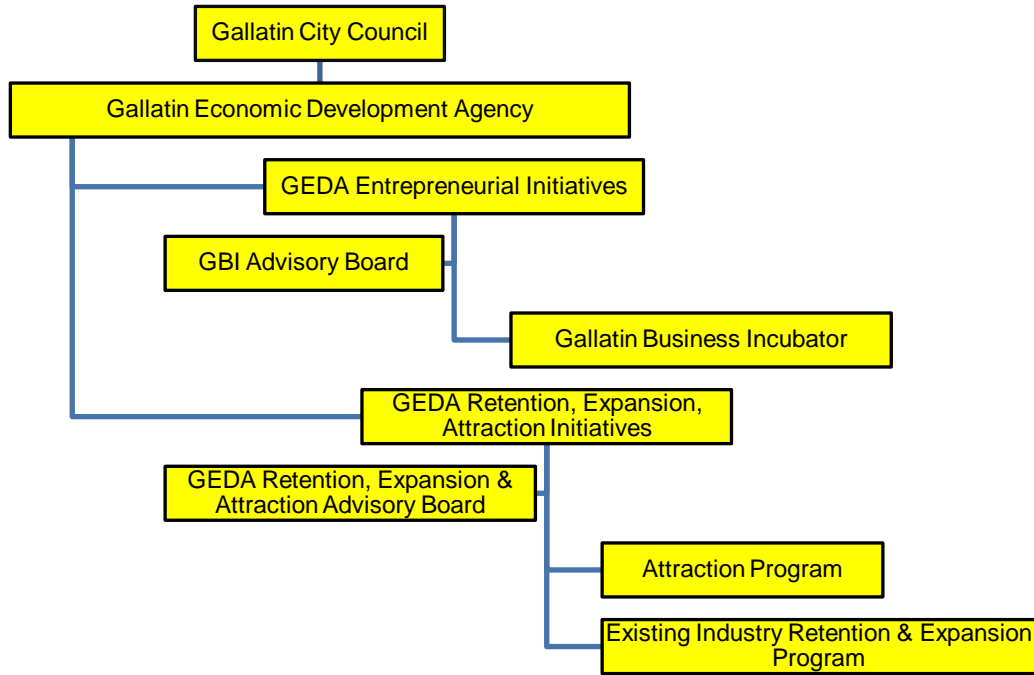
Figure 2 shows that the existing GEDA Advisory Board will transition to become the GEDA Retention, Expansion and Attraction Advisory Board, overseeing the Agency's attraction program, and its existing industry retention and expansion program.

At the same time, the new GBI Advisory Board will be created to oversee the incubator program. GCGI recommends that the GBI Advisory Board be a seven member body, with two members being area entrepreneurs, one being a for-profit service provider (e.g., attorney or CPA), two being representatives of VSCC, and two being representatives of the GEDA (one GEDA representative will be the GEDA Executive Director). This smaller size will prevent the bureaucracy and slower decision making common in a larger group, while hopefully including enough persons to share the significant burden of this undertaking. GCGI believes it is important to include successful entrepreneurs on the advisory board, since they are

¹³ GEDA's tie to City government also has an advantage: the EDA typically wants a project in which it invests to be owned by a governmental entity. This often means that the incubator facility is owned by a local unit of government, while it is operated and managed by an outside non-profit organization, which may or may not lead to a positive relationship between ownership and management. In this case, the City of Gallatin will own the incubator facility, and its economic development office (GEDA) will manage it, so there is less chance of friction or other problems.

most familiar with the challenges of starting and growing a business in the Gallatin area. The Gallatin City Council would appoint members of the GBI Advisory Board, based on the joint recommendation of the GEDA Executive Director and President of VSCC. Board members would serve staggered four year terms.

Figure 2. Preferred Governance and Management Structure for GBI



VII.B. GBI MANAGER RELATIONSHIP TO GEDA EXECUTIVE DIRECTOR & GBI ADVISORY BOARD

The GBI Manager will be an employee of the GEDA, and therefore will be under the GEDA Executive Director. The GEDA Executive Director will rely on the GBI Advisory Board to guide the direction of the incubator, and the actions of the GBI Manager. The GBI Manager will have primary responsibility for all personnel and activities in the daily GBI operations. All other GBI staff and contractors will report to the GBI Manager; however, the Manager may not hire or fire staff without consultations with and concurrence of the GEDA Executive Director. The GBI Advisory Board should hold the GBI Manager accountable for carrying out its policies and its outcomes of the GBI, but should not be involved in how the Manager performs the work. The Manager may ask Advisory Board members for advice or assistance, but it is to be understood that Board members, in such a situation, are serving as advisors and volunteers at the pleasure and direction of the Manager, and are not to serve as governing board members.

GCGI believes that many conflicts between incubator managers and their boards arise because there is no clear definition of, and agreement to, the responsibilities and prerogatives of both parties. Therefore, GCGI recommends that within the first year of the GBI operations that a GBI Manager, GEDA Executive Director, and GBI Advisory Board work together to create and adopt a “roles and responsibilities” agreement that will guide their relationships relative to each other.

VII.C. RECOMMENDATIONS FOR STAFFING

This section recommends that the GBI staffing consist of a full-time Manager and a full-time Administrative Assistant, and contract maintenance personnel on an as-needed basis. Prior education of the Manager and Administrative Assistant is less important than their experience with or as entrepreneurs and their interpersonal skills.

The initial GBI staffing plan includes two full-time staff members, namely the Manager and an Administrative Assistant. This arrangement is consistent with industry practices and the limited operations budget for the GBI.¹⁴ These personnel will be supplemented with part-time or contract labor for activities such as facility maintenance. Additional personnel may be added as the GBI budget permits, and as workloads dictate. For example, addition of new programs and revenue generating services may justify, and provide financial resources for, adding employees. GCGI believes there may be opportunities to “job share” additional personnel with the VSCC SBDC; neither the GBI nor the SBDC is likely to enjoy a large funding increase that would justify employing an additional, full-time employee, which could reduce the opportunities to find high quality personnel. However, if each could afford a half-time employee, then they could combine their needs and hire a full-time employee which would be shared between the incubator and SBDC.

The responsibilities for the GBI Manager should include the following. This list may be the basis for a job description, utilizing additional relevant information such as the education and experience recommendations included later in this subsection.

1. ability to develop and use skills in identifying affiliate and tenant needs and problems, and identifying appropriate resources for meeting those needs;
2. creativity in bringing SBDC and similar resources and training activities to the GBI and its affiliates and tenants

¹⁴ The 2006 State of the Incubation Industry report by the National Business Incubation Association reports the average incubator has 1.8 FTE staff members, down from 2.8 FTEs in 1998. Therefore, the recommended staffing level of 2.0 FTEs is actually above the industry norm.

3. willingness and ability to identify and make linkages between affiliates or tenants and suitable outside service providers who have appropriate expertise and, preferably, who will provide discounted fees for services;
4. willingness to be proactive in approaching affiliate or tenant companies in unobtrusive ways to learn of their needs;
5. possession of, or willingness to improve, skills and knowledge in areas of relevance to general affiliate or tenant needs (e.g., become knowledgeable of the procedures for registering a new business with the federal, state, county, and city governments);
6. ability to establish and maintain a cooperative and mutually supportive relationship with other small business service providers in the area, including the SBDC and the Gallatin Area Chamber of Commerce;
7. strive to help affiliates and tenants identify sources of capital for their businesses, and coach them on how to approach and make presentations to potential lenders and investors;
8. willingness to proactively link affiliates and tenants who are local offices of out-of-town companies with the GEDA attraction program and other local resources for possible relocation assistance or local market assessments;
9. ability to be self motivated and disciplined without direct supervision;
10. development and administration of procedures for security, maintenance, upgrade, and repair of the physical facilities, equipment, and furnishings;
11. development of standard affiliate agreement and tenant lease documents, responsibility for any modifications thereto for specific affiliates and tenants, and signature authority on individual affiliate agreements and tenant leases;
12. preparation of periodic reports to the Board of Directors regarding the number of affiliates and tenants, occupancy levels and corresponding operating financial projections, especially during start-up and early operational stages of the GBI;
13. development of, and periodic review and modifications to, the pricing structure for rents and other fees charged to affiliates and tenants;

14. responsibility for timely collection and deposit of amounts due from affiliates and tenants, payment of financial obligations, and prompt notification of the GBI Advisory Board and GEDA Executive Director of any anticipated financial problems and recommendations for their resolution;
15. day-to-day supervision of all GBI-related staff, contractors and consultants, including maintenance personnel and business assistance providers and trainers;
16. responsibility for keeping the Advisory Board and GEDA Executive Director informed of all relevant matters pertaining to the GBI, and recommending policy for Board consideration pertaining to operational issues;
17. primary responsibility for contact with members of the media regarding the GBI and affiliate and tenant relations, in consultation and cooperation with the GEDA Executive Director;
18. primary responsibility for implementing an active marketing campaign, particularly during the development and start-up stages of the GBI, based on the Marketing Plan outlined in Section IV.
19. oversee development of the printed brochure, website, and other materials to be used in promoting the GBI to prospective tenants and affiliates as well as the general community;
20. identify candidates for future openings on the GBI Advisory Board, and recommend those individuals to the GEDA Executive Director;
21. meet prospective affiliates and tenants to determine their suitability (relative to guidelines or criteria such as those presented in Section VIII.A of this business plan), provide tours of the GBI to those who appear promising, and negotiate agreements or leases with those that wish to enter the GBI;
22. develop and implement across the GBI staff, Advisory Board, and contractors and consultants, a procedure for insuring confidentiality matters relative to individual clients and tenants;
23. provide reporting required by any GBI sponsors, especially any that provided grant moneys for the initial remodeling and working capital, to be forwarded to the GEDA Executive Director for his/her consideration and conveyance to the sponsor;

24. seek additional ways in which the GBI can contribute to economic development efforts and the overall health of small businesses in the Gallatin/Sumner County area; and
25. develop, use, and encourage tenant use of the GBI telecommunications systems ranging from Internet marketing to low cost videoconferencing via Skype technology.

The education and qualifications of the GBI Manager should reflect an ability to empathize with, and provide answers to, typical problems encountered by small businesses and entrepreneurs. Someone with strong credentials in Fortune 500 management, for example, may have little appreciation for the capital, market entry and penetration, loneliness, and frustration issues that are facing a budding entrepreneur who has just quit his or her local factory job to start a small manufacturing business. GCGI feels that experience is more important than academic credentials; it is desirable to have a manager who has a bachelor's or master's degree in business administration, but such specific formal education is not nearly as valuable as, for example, an individual with a more general college degree who has built his or her own business from scratch.

It is preferable if the GBI Manager has experience in starting and/or operating small businesses, a working knowledge of facilities management (and a willingness to serve the role of landlord and facility manager), basic bookkeeping and cash management skills, strong interpersonal skills, creativity, and an ability to build relationships with other business assistance service providers. However, as indicated above, the role of the incubator manager has shifted from "service provider" to "triage specialist and broker," meaning managers cannot be expected to know all aspects of all needs of small and start up businesses, but should be expected to be able to understand what such a business needs and where that help can be found.

GCGI recommends that the GBI Manager training consist of four primary activities. First, the Manager should attend the annual meeting of the NBIA, typically held in the late spring, in order to begin building a network with other incubator operations and to glean the latest thinking of the small business incubator industry. Second, the Manager should attend the NBIA's Fall Training Institute, if there is a session for incubator managers, to further develop management skills, and to learn about common problems and concerns of incubator operations and how to solve them. Third, the Manager should participate actively in the any state- or region-wide incubation association, such as the one for TVA-supported incubators throughout the TVA service area. Finally, GCGI recommends that the GBI Manager tour and meet the managers of at least two functioning incubators per year to see the day-to-day operations of other incubator programs. Priority should be placed

on visiting, and establishing a relationship with, the nearby Nashville Business Incubation Center.

The GBI Manager should be assisted by an Administrative Assistant, employed full time beginning when the GBI is first established. This person will be expected to take on significant responsibilities for the GBI, despite the relatively modest projected salary level.

The Administrative Assistant is extremely important to the success of the GBI. This person is not only the first point of contact with the GBI for many important sponsors, service providers, Advisory Board members, and prospective affiliates and tenants, but he or she also may be performing telephone answering and receptionist duties on behalf of affiliates and tenants and therefore will help form first impressions of affiliates and tenants with prospective customers and employees, and with other visitors to the incubator.

Typical duties and responsibilities of the Administrative Assistant include:

1. telephone answering for GBI and its affiliates and tenants, reception of visitors, processing incoming and outgoing messages for the GBI Manager, tenants, and affiliates;
2. clerical support of the GBI operations, including word-processing, bookkeeping, and filing;
3. maintenance of affiliate agreement and tenant lease files, and preparation of agreement and lease documents for review and execution by the GBI Manager;
4. assistance to the GBI Manager in arranging for repair and maintenance of equipment, furnishings, and facilities, as well as assuming increasing responsibility for certain repair and maintenance activities;
5. assistance to the GBI Manager regarding facility-related issues that arise during the Manager's absence, both by taking initiative to address those issues and informing the Manager on a timely basis of the issues, actions taken, and/or recommendations;
6. tenant relations, informal interactions, and communication to the GBI Manager of any tenant- or affiliate-related matters that may affect tenant or affiliate behavior or performance that could be detrimental to their business success or the operation of the GBI;

7. arrangement and oversight of regular informal and social functions between tenants, affiliates, the GBI Manager, Advisory Board members, and service providers to reduce stress, celebrate successes, build a sense of community within the GBI, and provide opportunities for networking; and
8. preparation of monthly tenant and affiliate invoices and distribution thereof after approval by the GBI Manager.

Again, the academic credentials of the Administrative Assistant are much less important than his or her experience and personal traits. The GBI should seek an individual with strong clerical skills, an ability to perform tasks without constant and detailed supervision, and an ability to communicate with individuals in a professional, but friendly and relaxed, manner. The person should be detail oriented, and should have at least basic bookkeeping and computer (especially word processing and e-mail communications) skills, or be willing to undertake the necessary training.

Training for the Administrative Assistant will depend on the education and capabilities of the successful applicant. Skills in bookkeeping, computer operations, customer service, and dealing tactfully with difficult persons are needed. The former two skills would require more intensive training such as what might be available through VSCC or possibly through the SBDC. The latter two skills can be acquired in part through short (one or two day) training seminars that are held across the country by organizations such as the American Management Association and Fred Pryor Seminars. GCGI also recommends that the Administrative Assistant attend either a national NBIA conference or Fall Training Institute to better understand the nature and challenges of an incubator program. When the GBI Manager visits other incubators (as recommended as part of his/her training), the clerical support staff person should also participate and talk with the support staff at those facilities. If the Administrative Assistant will also be expected to have responsibility for oversight of many of the routine facility maintenance tasks of the GBI facility, additional training in commercial facilities management may be appropriate.

VIII. OPERATIONS

Operational issues related to the GBI are presented throughout this business plan. This section addresses four operations issues (i.e., entrance and exit criteria, review of tenant records, leases, and rental rates). While GCGI offers some general comments, suggestions, and advice relative to complex legal matters, the GBI definitely should seek appropriate legal counsel on these matters to ensure compliance with Tennessee laws.

GCGI recommends flexible entrance and exit guidelines rather than rigid criteria. Mandatory submittal of information by tenants and affiliates to the GBI should be minimized, and should be spelled out in the services agreement and tenant lease documents. Agreements and leases should be standardized and well conceived because of their importance to the GBI's relationship with tenants and affiliates. GCGI recommends that rental rates be at approximately market level, rather than the below market approach taken by some incubators, to help ensure the financial viability of the GBI and to reduce possible criticism of the incubator.

VIII.A. ENTRANCE AND EXIT CRITERIA

As prospective tenants and affiliates are identified, a process for evaluating their suitability for the GBI and deciding whether to admit them as a tenant must be in place. GCGI recommends that the criteria for selecting tenants be identified and agreed upon early in the process of developing the GBI, so that marketing efforts can be focused on those who might qualify, and so that the marketing message can specify (at least in general terms) what type of company will or will not be accepted into the GBI.

Some consultants and developers of incubators feel that very strict entrance criteria should be developed and followed rigorously. Some, for example, insist that prospective tenants have business plans completed before they will be considered for admission to the incubator. GCGI recommends that more flexible standards be used. GCGI believes that entrance criteria should set the general guidelines for the types of tenants or affiliates sought, rather than specific requirements which, if all are not met, will exclude a prospective tenant or affiliate regardless of their other merits. Rigid requirements limit flexibility, introduce a sense of bureaucracy and exclusivity to an incubator program that is often undesirable, and are more likely to be flawed or so encompassing that screening tenants and affiliates becomes a tedious, time-consuming process. Overly restrictive criteria also may exclude so many candidates for admission that the market for the GBI could be reduced below the level that is needed to support the facility and operations. This latter concern also pertains to too narrowly defining the types of businesses that will be considered for admission to the incubator as a tenant or affiliate.

GCGI recommends that the GBI adopt a set of relatively simple admission guidelines such as the following:

1. Does the applicant have what appears to be a reasonable business opportunity?
2. Are there ways in which the GBI (through its business and technical services, shared office equipment, and facilities) can increase the applicant's chances of succeeding?

3. Is the applicant willing to participate in GBI programs and services?

These three guidelines simply confirm that the company has a reasonable chance of succeeding, that the incubator can help improve the chance of success, and that the company owners are willing to accept the help offered in the incubator environment. This would provide a simple, but comprehensive and effective, means of screening candidates for admission to the GBI.

A slightly more elaborate (but still flexible and reasonable) set of guidelines is shown below. Not all questions would be appropriate for all tenants and affiliates, and this list is not meant to be all-inclusive.

1. Is the applicant in an industry or population being targeted by the GBI?
2. Are the numbers and types of jobs that the applicant expects to create consistent with the goals of the GBI, and any requirements of its funding sources?
3. Will applicant generate high-quality jobs and/or significant wealth for the owner and/or others?
4. Is the applicant in an industry that can help diversify the current economy of the Gallatin area?
5. Will the applicant represent an industry that GEDA and the City of Gallatin wants to encourage in the area?
6. Will a significant fraction of the applicant's products or services be exported outside of the area?
7. Would accommodating the applicant potentially save jobs in the area that currently are at risk?
8. If the applicant is a major company headquartered elsewhere, will its presence in the GBI be temporary while marketing opportunities and/or a permanent location in the community are pursued? Or, if only a small permanent local office is anticipated, are there other multi-tenant facilities that can adequately accommodate this applicant?
9. Is the applicant receptive to the assistance that will be provided by the GBI and outside service providers, while still striving to become a self-sustaining business?

10. Are there opportunities for synergy, subcontracting, or networking between the applicant and other GBI tenants and affiliates?

Prospective tenants and affiliates should be asked to submit a brief, written application. It is also desirable that they be asked to complete a brief work assignment before their application is considered. The purpose of these two written documents is to determine if the prospect is serious about starting a business, willing to accept guidance, and willing to follow through on commitments. However, GCGI does not recommend that a business plan be required as a prerequisite for considering a company as a GBI tenant or affiliate. We believe that a business plan may be a logical task for an entrepreneur once they have become a tenant or affiliate, and at that time the GBI may provide, directly or through external sources, assistance in preparing the plan.

The GBI will need to decide whether they will admit tenants or affiliates that compete or are potential competitors with other existing companies in the community or region. GCGI believes that one of the primary advantages of a strong free enterprise economy is competition, which gives firms an incentive to constantly improve, keep their prices reasonable, and provide good customer service. Therefore, GCGI recommends that competing companies be considered for admission to the GBI. However, if the GBI Advisory Board follows this recommendation, it must be prepared for criticism, because some will claim that it is “unfair” for the tenant or affiliate company to have the advantage of being in the incubator, versus its competitors. GCGI argues that (assuming, as we recommend, the GBI is charging market rental rates) there is no obvious financial subsidy, and an existing firm already has many advantages over a newcomer (such as an established clientele and market presence), and therefore this criticism is unfounded.

The GBI Advisory Board of Directors should decide whether to use a committee of its members to review and select prospective tenants and affiliates, or delegate this responsibility to the GBI Manager. The committee approach has the advantages of bringing multiple viewpoints to the decision, a higher probability that someone will know the candidate personally (and therefore have a sense of their suitability as a tenant), and a “sharing of the responsibility” if a candidate is rejected. The advantage of the GBI Manager doing the screening is that the process will be quicker, will not add to the Board’s responsibilities, and will put the decision in the hands of the person who will have to work with the candidate on a day-to-day basis if they become a tenant or affiliate. GCGI recommends that the Advisory Board place primary responsibility for the tenant selection with the GBI Manager, after the Advisory Board has approved a set of admission guidelines. Someone who is denied admission might be allowed to appeal that decision to the Advisory

Board, but GCGI does not recommend that this be the Board's policy until it seriously considers the additional burden it will be assuming.

Many early incubator projects had very rigid exit criteria for tenants. Typically, a company could reside in the incubator for an arbitrary time period (usually 24 or 36 months) and then had to seek space and assistance elsewhere. Similarly, some incubator programs essentially drive out tenants and affiliates by escalating rental and service rates to levels far above those in the surrounding market after an arbitrary period like the second or third year of occupancy.

GCGI believes that rigid and arbitrary exit criteria, while having the intuitive appeal of simplicity of administration, are flawed. Companies, like people, mature at different rates because they have different personalities and needs, and incubators admit tenants who are in various stages of development; therefore, it is not logical to assume that all GBI tenants and affiliates no longer benefit from the GBI after the same fixed period of time. Also, arbitrary exit criteria could have devastating financial consequences on the GBI. For example, if the GBI admitted several tenants at the same time and then forced all of them (perhaps after growing into even more space than they initially leased) to leave at the same time, serious vacancy and cash-flow problems could result.

GCGI recommends that the GBI adopt broad, flexible exit guidelines for tenants. The guidelines should consider:

1. The ability of tenants or affiliates to benefit from continued presence in the incubator and its programs (or, put another way, can the GBI still provide services that benefit the tenant or affiliate);
2. The willingness of tenants or affiliates to accept assistance from the GBI Manager, Board, and external service providers (usually based on their track record of welcoming such assistance in the past);
3. The track record of tenants or affiliates in implementing recommendations received during its tenure in the GBI;
4. The financial impact on the GBI of the departure of a tenants or affiliate at the end of its current lease or services agreement; and
5. The level of compatibility between the tenant or affiliate and other tenants and affiliates of the GBI, both in terms of types of businesses and technologies that they represent and the ethics and maturity of the tenant's or affiliate's management and employees.

The GBI Manager and Advisory Board need to be sensitive to the legal aspects of exiting a tenant. Adopting guidelines or criteria for the exiting conditions are one thing, while the tenant's legal rights (both in general and under its lease) may be another. While the limitations of leases will be discussed in the next subsection, suffice it to say here that it may be difficult or expensive to legally force a tenant to leave the GBI. Therefore, GCGI recommends that the lease include financial incentives for the tenant to leave (such as escalating rental rates by 25% to 50% over the current rate if the tenant fails to satisfy the aforementioned guidelines for continuing to stay in the GBI).¹⁵ The legal issues involved here are not applicable to the agreements signed with non-tenant affiliate companies of the GBI, although those agreements also should include termination clauses.

GCGI recommends that the GBI Manager have primary responsibility for determining whether a tenant or affiliate must exit, for the same reasons that the Manager should have primary responsibility for admissions decisions. However, the Advisory Board should approve the exit guidelines, and should have a limited role in the exiting process. GCGI believes that it may be appropriate for the GBI Manager to involve the Advisory Board in endorsing his or her decision in sensitive cases in which the tenant or affiliate may balk at the Manager's decision. Having the Advisory Board's endorsement will help show to the tenant or affiliate that it is a broader opinion than just the Manager's that they should exit, and it helps prevent the tenant or affiliate from trying to circumvent the Manager's decision by taking their case to the Advisory Board or individual Board members.

VIII.B. AGREEMENTS AND LEASES

GCGI recommends that the GBI develop a standard agreement with its affiliates and a standard lease with its tenants that are administered consistently. These documents should be executed by both the tenant or affiliate and the GBI Manager before an affiliate has access to the resources of the GBI, and before a tenant is allowed to occupy space in the facility. A security deposit equal to one month's rent or service fee should be paid upon execution of the agreement or lease. The agreement and lease documents should be as short as possible, and written in plain English for the benefit of both the tenant/affiliate and the GBI. The agreement or lease not only is the primary legal agreement between the affiliate/tenant and the GBI, but also is a critical document in which these parties agree (presumably while everyone is still on good terms) how conflicts or differences will be handled.

¹⁵ Note this is different than the earlier discussion of an incubator using highly escalated rents to entice a tenant to leave after an arbitrary time period in the incubator; here we are talking about using those much-increased rental rates to entice an exit after deeming the tenant is no longer a good candidate for the incubator based on carefully developed exit guidelines

The agreement or lease should state the term, or duration, of the relationship between the affiliate or tenant and the GBI. Typical lease terms are a few months to probably not more than two years, with new leases used for tenants who will remain beyond their initial term in the GBI (instead of placing options to renew in the original lease, which may reduce the incubator's ability to exit an unsuitable tenant). A longer term may be appropriate if the tenant has to make substantial modifications to the space to meet its needs so that it has time to amortize those expenses on a reasonable basis; implicit in this action, then, is a judgment by the GBI whether the proposed tenant will benefit from a tenure in the incubator equal to the amortization period of their leasehold improvements. The initial start date of the lease or agreement should be supplemented with a clause that stipulates that the GBI has some flexibility regarding the date when the services and/or space is actually available and when the service fee or rent obligations begin. Delays in construction, delivery of equipment, the exit of a prior tenant, or clean-up and repair after a tenant has left may cause services and/or space to not be available as quickly as both the GBI Manager and new affiliate or tenant would like. This stipulation prevents the GBI from possible legal consequences, brought by the entering tenant/affiliate, for delays beyond its control.

The termination date of the agreement or lease should be clearly stated, with a provision that an affiliate or tenant can remain after that date, on a month-to-month basis, only with written prior permission of the GBI Manager and at a stated rate of compensation. The rate of compensation should give the Manager an ability to substantially raise the service or rental rate, which can be used as an incentive for a tenant or affiliate to exit or to sign a new lease or services agreement rather than continue perpetually on the month-to-month clause. While GCGI does not recommend renewal options in a lease because it limits the GBI's flexibility, any such provision should include annual escalations in rental rates.

Early termination may be a desirable feature in the agreement or lease, especially for tenants or affiliates that may outgrow their need for the GBI's resources during their term. GCGI recommends that the GBI have the right to allow early termination of leases, but only with the tenant paying some financial consideration unless another tenant is ready to occupy the vacated space immediately. Tenants also should not be allowed to sublease without the GBI's prior written permission. However, subleasing should not be prohibited as this restriction may make potential tenants less likely to sign a lease knowing that they cannot sublet if their own business conditions change. The lease also may allow for early termination without financial penalty if a tenant wants to move into larger or more expensive space within the GBI during the lease term.

GCGI suggests that the monthly service or rental rate be stated in the services agreement or lease, along with a total dollar value of the lease or agreement (equal to the monthly rate times the number of months in the term of the services agreement or lease). The due date for monthly payments should be stated, along with penalties for late payments.

The GBI's services agreements and lease forms should assess stiff penalties for late payments (e.g., affiliates and tenants may be charged an additional 10% for payments made five or more days late, and perhaps 25% for payments that are over 15 days late). The GBI Manager should then enforce those penalties consistently and promptly (which means implicitly that he/she must maintain an accounts receivable list, and update it at least on the fifth and 15th of the month). Otherwise, tenants and affiliates will tend to not pay the GBI when money is tight, since the GBI is likely to be seen as being "friendlier" to the tenant or affiliate than many other creditors with which they have more typical business relationships. The GBI Manager should be given some discretion to waive all or part of these penalties, assuming the tenant or affiliate gives notice ahead of time of the likelihood of a late payment and a reasonable time frame for payment. If a tenant or affiliate notifies the GBI Manager of late payment, the Manager should use this opportunity to determine if this is symptomatic of a problem in the tenant or affiliate company with which the GBI can help.

If a tenant or affiliate does not pay on time, and fails to notify the GBI Manager of the reason(s) why, then the Manager should contact the tenant or affiliate by the 16th of the month. GCGI describes the tone of the interaction with a late paying tenant as "turning up the heat" over time: the initial contact should be relatively cordial and non adversarial, but firm and with the lesson conveyed that the tenant/affiliate should always notify its creditors if payment is going to be late. The initial contact should include clarification of the date by which the tenant/affiliate will get current on its obligations to the GBI. If that date passes without the tenant/affiliate making payment (and without contacting the GBI Manager with a reason why), then the Manager should approach the tenant/affiliate, ask why the tenant/affiliate has not gotten current on its obligations, and why they did not convey the problem with meeting the deadline to the GBI Manager. This interaction will be more terse but still not adversarial. Once again, a deadline for getting current will be the required outcome of this conversation. If the tenant/affiliate once again fails to meet that deadline, the Manager should (a) declare the tenant/affiliate to be in default of their lease/agreement with the incubator, (b) send that notice per the terms of the lease/agreement stipulating how many days the tenant/affiliate has to cure the default (that term should be stated in the lease/agreement document), and indicating that eviction/termination of the agreement may be the outcome of the tenant/affiliate failing to pay its obligation, and (c) begin to restrict the tenant/affiliate's access to services and resources. However, unless Tennessee law permits, the Manager should not

“change the locks” or otherwise refuse the tenant’s admissions to their leased space in the GBI incubator. Only as a last resort should the GBI Manager, in consultation with the GBI Advisory Board, initiate eviction and collection proceedings against the tenant/affiliate in court, as such actions typically are expensive, time consuming, and may generate negative publicity for the incubator for “suing the kind of poor entrepreneur that the incubator is supposed to be helping.”

Describing the leased space in the text of the lease, or relying on suite numbers that may change over time, is not recommended. Therefore, GCGI recommends that a reduced-size copy of the floor plan of the GBI facility be attached to the lease, and the leased area indicated with a crosshatching or highlighting of the appropriate space on that plan. This will clarify whether the tenant has any access to an adjoining storage room, for example, and will demonstrate that they have no right to use the hallway outside of their leased area (some incubator tenants believe they can leave files or furniture in such common areas, for example).

As mentioned in Section VI.D, the tenant lease or affiliate services agreement may include an indemnity or hold harmless clause to limit the legal exposure for the services and advice the GBI renders during a tenant’s or affiliate’s tenure.

A clause covering insurance requirements should indicate the respective responsibilities of the GBI and the tenant or affiliate. The GBI may require tenants to have certain coverage as a condition of occupancy, and show evidence of that coverage on an annual basis, and/or name the GBI as an additional insured.

Many incubators are now requiring tenants to avoid using hazardous materials in the facility, and defend and hold the incubator harmless in the case of any environmental violations by the tenant. This portion of the lease must be carefully structured, since an extreme position would exclude many prospective tenants, place additional burdens on entrepreneurs beyond what the Environmental Protection Agency (EPA) and the Occupational Safety and Health Administration (OSHA) already impose, or require substantial additional documentation and administration for both tenant and management of the GBI that is both time consuming and a diversion away from the issues of growing and sustaining a small business.

Any expectations for affiliates or tenants to disclose information about their companies, such as what might be required by some GBI funding sources, should be clearly stated within the agreement or lease. Section VIII.C addresses GCGI’s recommendations regarding what information might be requested of GBI tenants and affiliates.

Tenants should be given the right of “quiet enjoyment” of their leased space, but the true meaning of this legal term should be carefully defined in the lease, since incubator tenants often misinterpret it to mean that they have the right to absolutely no noise or other distraction from other tenants or the general operations of the facility.

Tenants should not be allowed to make any modifications to their leased space without prior written permission of the GBI Manager, and the GBI should have the option of having the tenant remove such modifications and return the space to its original condition at the end of tenant’s tenure in the facility. All of this should be stipulated in the lease agreement.

Assuming the GBI will be developed with external funding from sources like the Federal Economic Development Administration, tenant leases should indicate that tenants are expected to comply with any requirements of the funding sources that are imposed on the GBI. An example is the provision of certain tenant demographics, per Section VIII.C below.¹⁶

Perhaps the most challenging parts of the lease are the default and eviction provisions. The default section is pretty straightforward: if a tenant fails to abide by the conditions it agreed to in executing the lease, the tenant is deemed to be in default. The lease should indicate how the tenant is to be notified of default, and how long they have to cure the cause of the default. From the GBI’s standpoint, this period should be as short as possible, but the time period should be reasonable to be more defensible from a legal perspective. If the tenant fails to cure the default within the specified time period, the GBI should have options, up to and including (but never limited to) eviction. But, as indicated above, actual eviction may be difficult (or at least time consuming) to accomplish.

The criteria or guidelines for a tenant or affiliate exiting the GBI might be stated in the lease or services agreement (see Section VIII.A), both to avoid any claim that the tenant or affiliate did not know what they were, and to manage their expectations in terms of what the GBI expects of its tenants and affiliates. However, the lease or services agreement should not give any indication that a renewal of the lease or services agreement is automatic just because a tenant or affiliate meets certain conditions, since the GBI may have other reasons to discontinue a relationship with a particular tenant or affiliate.

¹⁶ As a related issue, EDA will likely require the City to make certain promises as part of its provision of grant funds to create the GBI, such as maintaining the facility as an incubator for at least 20 years. The City Manager, GEDA Executive Director, and GBI Manager need to be familiar with EDA’s requirements and strive to keep the GBI within the stipulations of the City’s agreement with EDA. The pre-application and application to EDA should show a commitment to maintaining the facility as an incubator; EDA has expressed concerns with applicants who seem too focused on contingency plans for the facility rather than showing dedication to the intended use.

There should be no informal understandings between tenants or affiliates and the GBI Manager regarding matters that are found in leases or services agreements. Such understandings, which are usually unwritten, may seem appropriate when the tenant or affiliate relationship is amicable, but may become a significant problem for the GBI at a later time if that relationship becomes strained.

GCGI recommends that the GBI developers acquire and consult the NBIA resource guide *Getting It in Writing*, which includes advice and samples of documents such as tenant leases and affiliate agreements. This guide could serve as a starting point for the tenant lease and affiliate agreement with the GBI. GCGI recommends that an attorney with experience with Tennessee real estate law review draft lease and agreement documents prepared by the GBI, and that the resulting draft documents then be forwarded to the Gallatin City Attorney to ensure the city feels it is adequately represented and protected in those agreements.

GCGI recommends that a GBI tenant handbook be developed, and revised over time, as conditions change and new questions and issues arise. GBI tenants should receive a copy of the handbook when they enter the incubator, and should sign for it to demonstrate that they received it and were advised by the GBI as to its importance.

VIII.C. DISCLOSURE AND REVIEW OF AFFILIATE OR TENANT RECORDS

GCGI does not recommend that affiliates or tenants be required to disclose to the GBI Manager their full monthly or quarterly financial statements. Proponents of such requirements believe it is a way for the incubator to intervene in an affiliate's or tenant's business at the early sign of trouble. GCGI believes that incubators seldom review the financials in that level of detail (due to time constraints and/or limitations on the staff's ability to fully interpret financial statements), the financials are often presented in a "positive light" to hide any such problems (and seldom are audited or professionally prepared to prevent such optimistic presentations), and access to an affiliate's or tenant's financials increases the likelihood of a legal claim by a disgruntled tenant or affiliate that the GBI did not intervene when they had knowledge of a problem. It also presents a problem in that the Internal Revenue Service (IRS) does not favor creditors accepting payment from a company if that creditor has knowledge that the company is not making timely deposits of employee payroll taxes with the IRS. The GBI would arguably have such information if it had the tenant's or affiliate's financial statements, and therefore could not accept payment for rent or other expenses in such situations (or would be required to pay the funds received to the IRS to help cover the payroll tax obligation).

GCGI acknowledges that some data about affiliate or tenant companies may be required by various funding sources of the GBI, and there may be some value in having some informational items about an affiliate or tenant on a regular basis to help monitor the company's progress. GCGI recommends that the GBI create a list of information required by any funding sources, and supplement this with not more than five additional items that would give the GBI Manager some insight into the tenant's or affiliate's progress. This list should be included in or attached to leases or services agreements as a required disclosure on a semi-annual basis. Failure to provide this information should be specified in the lease or services agreement as a condition of default so that the GBI has some "leverage" in encouraging tenant and affiliate compliance because funding sources may insist on GBI collecting certain information. Therefore, the GBI should not rely on voluntary tenant or affiliate compliance in meeting such a requirement. Additional items that the GBI might want to know about tenant or affiliate companies include the following:

- progress in achieving certain milestones in the affiliate's or tenant's business plan;
- status of efforts to secure financing;
- changes in personnel, particularly management;
- number of days aging of the company's accounts receivable, and any past due client with which the GBI might have influence; and
- number of days aging of the company's accounts payable.

Such items should be submitted to the GBI Manager, who should then maintain the confidentiality of the information, and use it to meet any reporting requirements and to provide appropriate counseling, referrals, or training to assist the tenant or affiliate with problem areas. Consistent failure to achieve business milestones also may be used to decide whether the company will be allowed to continue as a GBI tenant or affiliate.

VIII.D. RENTAL RATES AND PRICING SCHEMES

When the GBI begins marketing space to tenants, GCGI recommends rental rates be charged that approximate those of the surrounding real estate market for similar types and quality of space. The early wisdom in the incubator industry that rental rates should be far below market levels has resulted in financial failure for some incubators that could not generate sufficient revenues from such low rents to cover their operating costs. Also, below market rental rates will place greater pressure on the GBI to not admit any tenant for whom such a "subsidy" would be considered unfair, such as a start-up firm that will be competing with existing companies in the community.

GCGI also believes that the financial importance of below market rental rates for tenants is overstated, while its importance to the overall financial viability

of an incubator like the GBI can be high. For example, a \$2 per square foot subsidy for a tenant with 500 square feet leads to only a \$1,000 per year savings to the tenant, which is of minor significance for most types of companies, while the same \$2 per square foot subsidy for a 25,000-square-foot incubator that is 80% leasable and 85% occupied is over \$33,000 per year.

GCGI believes that the value added features of the GBI should justify a rental rate *at least* equal to similar real estate without those features. Tenants have ready access to business assistance, and opportunities to network with fellow small and start up business owners as well as service providers and community leaders; have the opportunity to sign short term leases on very small spaces; and have access to important shared resources like conference rooms and well equipped work areas that reduce their overhead costs—GCGI believes such features make the incubator space more valuable than equivalent real estate in a community.

Rental rates for office space appear to be moderate in the Gallatin area, based on data collected during the feasibility study. GCGI assumed that the GBI will make available office space of mid-level quality (otherwise known as Class B office space). We also assumed some generic space suitable for anything from light laboratories to light manufacturing and assembly.

For purposes of the financial projections presented in Section IX, GCGI believes that \$13 to \$14/square foot for Class “B” office space and \$6 to \$7/square foot for general space are reasonable rates, particularly given that the GBI will be in a newly renovated facility. It is important to note that these prices include property tax, basic facility maintenance, common area charges, and utilities, and therefore are approximately equal to more commonly quoted “triple net” rental rates of \$10 to \$11/square foot for office and \$3 to \$4/square foot for general space. GCGI believes that these are good initial rates for this business plan and can be used as the basis for actual rates charged by the GBI, with adjustments made for particularly desirable spaces or suites, and changes in local commercial and industrial real estate prices in the Gallatin area between now and when the GBI is available for tenant occupancy.

Rental rates in the GBI should be increased over time to cover higher costs resulting from inflation. Incubator programs that fail to build in an escalation factor into their rent structure at least equal to inflation will find it increasingly difficult to remain viable because rental revenues will fail to keep pace with expenses. Multiple year leases should reflect an annual rent escalation. GCGI recommends that the GBI Advisory Board of Directors and Manager plan to escalate GBI rental rates by about four percent (4%) per year.

As discussed in Section IV, discounting the price charged for space in the GBI may be desirable in certain instances, such as when a tenant leases

space now that they will not fully utilize for several months. GCGI recommends that the tenant and the GBI Manager agree on a graduated rental rate so that the tenant will be paying the full rate on the space within an agreed upon time period, typically six months or less.

GCGI recommends that the GBI quote prices on various suites and spaces in the incubator on a dollar per month basis. This is in contrast to a per square foot per year basis, with triple net or gross qualifiers. Entrepreneurs, particularly start up firms, tend to prefer to know what a given space is going to cost them each month so that they can decide if occupying that space is consistent with their budget. For the same reason, GCGI recommends that average monthly utility, property tax, insurance, and similar facility costs be rolled into the flat price per month for a space in the GBI. It is far easier for an incubator tenant to pay, for example, a \$100 per month amount to cover their “average” utility usage, rather than pay \$25 some months and \$150 in others based on “actual” utility usage each month.

IX. FINANCIAL INFORMATION AND PROJECTIONS

IX.A. CAPITAL EXPENDITURES

Capital expenditures are summarized in Table 9 (page 69) for the Gallatin Business Incubator (GBI). These figures, as well as all others throughout Section IX of this business plan, are based on the assumption that the incubator occupies the front two buildings of the former ServPro headquarters on Airport Road in Gallatin. These two buildings include about 42,000 square feet of space.

The assumptions regarding capital expenditures and pre-operating costs for this scenario, which are based on expectations for the GBI space and tenants, and GCGI’s experience with other incubators, are:

- furniture, equipment, and telecommunications infrastructure costs are \$50,000;
- construction contingency allowance is 8% of the total cost of construction, land, and furniture/equipment/telecommunications;
- 25,000 square feet of the incubator will be office space, with 5,000 square feet being general space suitable for light laboratory or light assembly uses;
- a 12,000 square foot space, likely in the middle building, will be available for lease to an anchor tenant, perhaps temporarily until needed by the incubator;
- a new 2,500 square foot space will be built to join the first and second ServPro buildings, to serve as the main entrance to the GBI, and to house some of the common areas and resources such as the reception area and conference room; and
- construction costs, based on estimates provided by a knowledgeable local contractor, are \$80 per square foot for the new 2,500 square foot entry area, plus 15% for additional costs related to Federally funded projects subject to

prevailing wage or David-Bacon labor costs. The existing front buildings will require only modest “freshening” at \$10 per square foot since it was extensively remodeled in the recent past, while the second existing building will require more renovation estimated at \$25 per square foot. Quality is assumed to be consistent with Class “B” office space.

As shown in Table 9, the total anticipated facility-related development costs for the GBI are \$2.4 million.

The line item for “Operating Subsidy Allowance” provides funding from the start of the GBI development through the early years of the incubator’s operations before break even is achieved. The \$125,000 amount shown in Table 9 is an appropriate allowance, per the cash-flow projections for the GBI presented in Section IX.C.

Table 9. Uses of Capital

<u>Use</u>	<u>Amount</u>
Facility acquisition	\$900,000
Renovation	1,109,750
New construction	230,000
Furniture, equipment, and telecommunications	50,000
Contingency allowance	<u>111,180</u>
Total facilities cost	\$2,400,930
Operating subsidy allowance	<u>125,000</u>
Total costs	\$2,552,900

The final line in Table 9 indicates the total assumed capital requirements for the GBI, which includes both facility cost and the operating subsidy, are approximately \$2.6 million.

IX.B. SOURCES OF CAPITAL

The projected sources of capital available for constructing, furnishing, and equipping the GBI as well as for covering early year operating deficits are summarized in Table 10. The major target sources of development capital include the U.S. Department of

Table 10. Projected Sources of Capital

<u>Capital Source</u>	<u>Amount of Capital (\$)</u>
EDA	\$1,000,000
City of Gallatin/Sumner County	200,000
Tax Increment Finance District	950,000
Tennessee Valley Authority	<u>400,000</u>
Total	\$2,550,000

Commerce’s Economic Development Administration (EDA), and the City of Gallatin and/or Sumner County. Other important contributors are a proposed Tax Increment

Finance (TIF) district, and a low interest loan from the Tennessee Valley Authority (TVA). The TVA loan is assumed at 2% interest for a 10 year term.

Not shown in Table 10 is the strong possibility that some donations of services (e.g., architectural design, surveys, renovation) and hard resources like furniture, telecommunications equipment, and photocopiers may be received by the incubator from individuals and organizations wishing to support development of the GBI.

Several comments are relevant to the capital sources assumed in Table 10:

- Sumner County does not meet EDA criteria for typical incubator grant funds. However, GCGI believes that Gallatin does, and as the primary focus of this project, and therefore this project should be eligible for such EDA funds. Alternatives include grant funding from other Federal sources such as the U.S. Department of Agriculture, and special funding programs that may arise as part of Federal attempts to stimulate the economy during the current severe recession. A Federal appropriation specific to this project is also a possibility. GCGI encourages the champion of the GBI, to continue to pursue a Federal grant as a major cornerstone of funding for this incubator, and recognize that it may come from a special or unexpected funding source or program. Persistence and flexibility will be keys to securing Federal funds for the GBI.
- Federal agencies like EDA usually will require demonstration of a strong local financial commitment to a project like the GBI, which must be in the form of non-federal financial resources. Therefore, governments such as the City of Gallatin and Sumner County must be encouraged to participate. These organizations will need to be kept apprised of the GBI plans, why the GBI is being pursued, and its importance to the community's economic development initiatives. In these discussions, the importance of their local contributions to the GBI should be emphasized.
- While continuing to monitor the opportunities for Federal funding, GCGI recommends that the GBI champion work on creation of a Tax Increment Finance district for the incubator. GCGI understands that a mechanism exists for creation of such a TIF district, including a board that must consider and approve TIF requests, but that there has been little or any previous TIF activity in the Gallatin area. Therefore, the GBI champion will need to spend additional time and effort to move the board and community through the process of considering and creating a TIF district for the incubator. Because of the time and effort required, GCGI recommends this be done concurrent with (rather than subsequent to) efforts to identify and secure Federal funds.
- The other major funding source, TVA, needs to be kept apprised of progress in securing other funding. The GBI champion also should monitor TVA's willingness to fund projects like this incubator, and any changes in funding limits or terms.

IX.C. CASH-FLOW PROJECTIONS

Cash-flow projections for the GBI are based on the cash-flow model developed by GCGI as part of the feasibility study. That model was originally applied to a variety of scenarios ranging from constructing new a building to leasing an existing building to acquiring and renovating one of several buildings (including the ServPro facility). The financial projections in the feasibility study suggested that some scenarios were clearly inferior and should not be pursued. Other scenarios were rejected because the facility on which they were based was no longer available. Changes in ownership of the ServPro facility occurred during preparation of this business plan for the GBI, but it was decided that the plan should continue to assume acquisition and renovation of a portion of that facility.

A five-year, cash-flow projection is given in Table 11 for a scenario in which the front two buildings in the former ServPro facility on Airport Road are purchased, renovated, and joined by a 2,500 square foot entry and common area.

Important assumptions are:

Space distribution and occupancy

- net leasable space is 80% of the gross square footage (excluding the new 2,500 square foot entry);
- incubator space distribution is 83% office and 17% light laboratory or assembly, with another 12,000 square feet available for an anchor tenant;
- average incubator vacancy rates range from 35% in Year 1 to 10% in Years 4 and 5, equally distributed between office, laboratory or assembly space, while the anchor space ramps up from 30% occupancy in Year 2 to 50% by Year 5;

Revenues

- 10 affiliates pay monthly fees of \$65.00 in Year 1, with a 5% annual escalation rate;
- office space rents at \$13 per square foot while light laboratory or light assembly space rents at \$6 per square foot, with a 4% annual escalation;
- anchor tenant(s) pay a rate of \$6 per square foot inclusive of utilities, maintenance, and other common costs, with a 4% annual escalation;
- gross services revenues average \$1.75/square foot of occupied space, with a 5% annual escalation rate;

Operating expenses

- salary of \$60,000 plus 20% for benefits for a full-time GBI Manager, with a 4% annual inflation rate. The salary and benefits for the full-time administrative assistant, at \$25,000 per year plus 20% for benefits, is also included;
- utility costs are estimated at \$1.75/square foot (gross), plus an additional \$0.75/square foot of occupied space, based on estimates of a commercial realtor familiar with local conditions;
- that same commercial realtor estimates common area maintenance (CAM) and repair costs at \$.85/square foot (gross), with a 6% annual inflation rate;

- supplies and telephone costs are \$300/month, with a 5% annual inflation rate; and

Other

- an annual allowance for bad debt is 5% of rent and services revenues.

Two cash-flow projections were made for the GBI using these common assumptions. The first projection assumes the GBI leases 12,000 square feet of space to an anchor tenant, while the second projection assumes this space remains vacant.

The first cash-flow projection is shown in Table 11.

Table 11. Cash-Flow Projection for the GBI

	Year 1	Year 2	Year 3	Year 4	Year 5	
Cash @ Start	\$ -	\$ (88,399)	\$(123,552)	\$(118,529)	\$ (87,633)	
Cash In						
Rental: office	\$ 260,000	\$ 270,400	\$ 281,216	\$ 292,465	\$ 304,163	80% leasable @\$13/sf gross
Rental: light lab	\$ 24,000	24,960	25,958	26,997	28,077	80% leasable @\$6/sf gross
Rental: anchor	-	21,600	26,712	32,360	42,877	Assume gradual incr to 50%
Services	34,125	41,344	49,199	54,698	57,433	\$1.75/sf occup incub sf,5% escal
Affiliates	7,800	8,190	8,600	9,029	9,481	\$65/mo, 5% escal, 10 affiliates
- vacancy factor	(99,400)	(73,840)	(46,076)	(31,946)	(33,224)	Equal % off/lab but not anchors
- bad debt factor	(15,906)	(17,915)	(19,154)	(20,326)	(21,627)	5% of rent & svcs
Net cash in	\$ 210,619	\$ 274,739	\$ 326,455	\$ 363,276	\$ 387,179	
Cash Out						
Salaries	\$ 102,000	\$ 106,080	\$ 110,323	\$ 114,736	\$ 119,326	FT \$60kMgr,\$25k FT receipt+20%
Utilities	101,500	105,044	108,883	111,736	113,429	\$1.75/sf gr+\$\$.75/sf leased+ 5% infl
Maint & repair	37,825	40,095	42,500	45,050	47,753	\$0.85/sf, 6% infl (overstates anchor)
Debt service	44,093	44,093	44,093	44,093	44,093	TVA loan @ 2% for 10 years
R/E taxes	-	-	-	-	-	In CAM above
Supplies, phone	3,600	3,780	3,969	4,167	4,376	\$300/mo + 5% inflation
Miscellaneous	10,000	10,800	11,664	12,597	13,605	8% inflation
Net cash out	\$ 299,018	\$ 309,891	\$ 321,432	\$ 332,379	\$ 342,581	
Change in Cash	\$ (88,399)	\$(123,552)	\$(118,529)	\$(87,633)	\$(43,035)	Accum deficit of ~\$125k
Cash @ End	\$ (88,399)	\$(35,153)	\$ 5,022	\$ 30,897	\$ 44,598	b/e possible @ 84% occup in Yr 3
% occupancy	65%	75%	85%	90%	90%	
Rent escalation		4%	4%	4%	4%	

The line in Table 11 labeled “Change in Cash” indicates the annual operating surplus or deficit for each of the first five years. The initial operating deficit in Year 1 declines rapidly from approximately \$6,600 and becomes an operating surplus in Year 2 of about \$7,500.

Table 11 suggests that the GBI is able to achieve break even in Year 3, at an occupancy level of about 84% in the incubator. Further, based on the data in Table 11 on the line "Cash @ End, the GBI could generate an annual surplus of about \$45,000 by Year 5.

GCGI generated a second cash flow projection that is identical to Table 11 except that it assumes that the 12,000 square foot "surplus" space in the ServPro facilities would be vacant rather than partially rented to an anchor tenant. This second projection, therefore, indicates the importance and value of renting the surplus space. In summary, that second projection indicates that the GBI will be slower to break even, and will require a higher occupancy level to reach that breakeven point. More specifically, this second projection suggests the GBI would break even in Year 4 at an occupancy rate of 90%, versus Year 3 and 84% in the original financial projection. Further, the second projection indicates the accumulated deficit will be approximately \$165,000, versus \$125,000 in the original projection. Therefore, there is considerable value in leasing even a fraction of the surplus space in the GBI to an anchor tenant, in that it reduces the cost of development of the incubator and allows it to become financially self sustaining quicker and at a lower occupancy level. Therefore, GCGI concludes it is important that the GBI strive to lease at least a portion of its surplus space to an anchor tenant. GCGI assumes that the rental of anchor space might occur starting in Year 2 of incubator operations, at a modest level of 30% of the surplus space and \$6 per square foot rental rate, inclusive of utilities and CAM. The occupancy would increase gradually to 50% of the surplus area, with the rental rate escalating 4% per year.